DOCUMENT RESUME

ED 414 851 HE 030 839

TITLE	The Federal Student Financial Aid Handbook 1998-99.
INSTITUTION	Office of Postsecondary Education, Washington DC. Student Financial Assistance Programs.
PUB DATE	1997-00-00
NOTE	975p.
AVAILABLE FROM	Federal Student Aid Information Center, Box 84, Washington, DC 20044; phone: 800-433-3243.
PUB TYPE	Guides - Non-Classroom (055)
EDRS PRICE	MF07/PC39 Plus Postage.
DESCRIPTORS	*Compliance (Legal); Eligibility; Federal Legislation; Federal Regulation; Government School Relationship; Grants; Higher Education; Scholarships; *School Accounting; State Federal Aid; *Student Financial Aid; *Student Loan Programs; Work Study Programs
IDENTIFIERS	Family Education Loan Program; Federal Direct Student Loan Program; Pell Grant Program; Perkins Loan Program; Supplemental Educational Opportunity Grants

ABSTRACT

This handbook explains the policies and procedures required for proper administration of Student Financial Assistance (SFA) Programs, as determined by federal law or regulations of the Department of Education (ED). The 11 chapters cover the SFA programs from the vantage point of the school's financial aid administrator. Chapter 1 provides general information and lists related resources. Chapter 2 addresses general student eligibility requirements that apply to all SFA programs. Chapter 3 explains school and program eligibility requirements common to all SFA programs. Chapter 4 explains how to calculate Pell Grant payments and how to report payments to ED. Chapter 5 provides general information common to the three campus-based programs the Federal Perkins Loan Program, the Federal Work-Study Program, and the Federal Supplemental Educational Opportunity Grant Program. Chapters 6 through 8 cover these programs individually. Chapter 9 discusses the state grant and scholarship programs. Chapter 10 covers the Federal Family Education Loan Programs. The final chapter covers the William D. Ford Federal Direct Loan Program. (DB)

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ED 414 851

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 1

U.S. DEPARTMENT OF EDUCATION
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Introduction and General Program Information

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Most Frequently Called SFAP Telephone Numbers

(Chapter One contains a more comprehensive listing of numbers.)

General Information and Application Processing

* **FEDERAL STUDENT AID INFORMATION CENTER**

  (800) 433-3243 (4 FED AID)
  NO CHARGE

Hours of operation: 8:00 am to 8:00 pm (Eastern), Monday through Friday

  (319) 337-5665 TOLL CALL

Hours of operation: 8:00 am to 8:00 pm (Eastern), Monday through Friday

* SFA CUSTOMER SUPPORT BRANCH

  (800) 433-7327 (4 ED SFAP)
  NO CHARGE

Hours of operation: 9:00 am to 5:00 pm (Eastern), Monday through Friday

* ORDERING FAFSA'S

  (800) 284-2788 NO CHARGE

Hours of operation: Automated system is available 24 hours a day, 7 days a week

* FAFSA ON THE WEB

  (800) 801-0576 NO CHARGE

http://www.fafsa.ed.gov/

Hours of operation: 8:00 am to 8:00 pm (Eastern), Monday through Friday

SFAP Software, Systems and Telecommunications

* **CENTRAL PROCESSING SYSTEM (CPS) CUSTOMER SERVICE**

  (800) 330-5947 $12.06 per call (No charge for Direct Loan schools) or e-mail: cps@ncs.com (schools may be charged, depending on content) Direct Loan e-mail: dlts@ncs.com (No charge)

Hours of operation: 8:00 am to 8:00 pm (Eastern), Monday through Friday

* TIV WAN CUSTOMER SERVICE

  (800) 615-1189 $12.61 per call or T4wan@ncs.com (No charge for Direct Loan schools)

Hours of operation: 8:00 am to 11:00 pm (Eastern), Monday through Friday

* NSLDS CUSTOMER SERVICE

  (800) 999-8219 NO CHARGE

Hours of operation: 7:00 am to 7:00 pm (Eastern), Monday through Friday

Pell Grant

* **PELL GRANT INSTITUTIONAL ACCESS SYSTEM HOTLINE**

  (800) 474-7268 (4 P GRANT) NO CHARGE

Hours of operation: Automated system is available 24 hours a day, 7 days a week

Direct Loans

* **DIRECT LOAN CUSTOM/COMBO SCHOOL TECHNICAL SUPPORT**

  (800) 756-4220 NO CHARGE or dlts@ncs.com

Hours of operation: 8:00 am to 5:00 pm (Eastern), Monday through Friday

* DIRECT LOAN ORIGINATION CENTER (LOC) SCHOOL RELATIONS

  (800) 848-0978 NO CHARGE

* APPLICANT SERVICES

  (800) 557-7394 NO CHARGE

Hours of operation: 8:00 am to 8:00 pm (Eastern), Monday through Friday

* DIRECT LOAN BORROWER SERVICES (UTICA) CDSI/AFSA

  (800)848-0979 NO CHARGE

Hours of operation: 8:00 am to 8:30 pm (Eastern), Monday through Friday

CONTENTS

CHAPTER 1
INTRODUCTION AND GENERAL PROGRAM INFORMATION

INTRODUCTION **1**
The Student Financial Assistance (SFA) Programs 1
How the SFA Programs Are Covered in the Handbook 2
Other Useful Contacts Within the Department 3

SECTION 1: GENERAL PROGRAM INFORMATION **5**
SFA Program Summaries 5
Statutes and Regulations 9
Funding of SFA Programs 10
Chart: FY 96 Actual Aid Provided and FY 97 Appropriations 11
Other Assistance Programs for Students 12
Other Useful Department Publications 12

SECTION 2: REFERENCES AND RESOURCES **15**
Automated Data Exchange Information 17
Federal Pell Grant Program Financial Management Specialists 18
Campus Based Programs Financial Management Specialists 19
Direct Loan Client Account Management 20
ED Regional Addresses 21
Case Management Teams 22
Guarantor and Lender Review Branches 23
U.S. Department of Education Regions 1-10 (Map) 24
Important Toll-Free Telephone Numbers 25
Glossary 29

Introduction

The Federal Student Financial Aid Handbook explains the policies and procedures required in the proper administration of the Student Financial Assistance (SFA) Programs. Defined in law, in regulation, or as guidance from the U.S. Department of Education (ED), these policies and procedures facilitate the effective operation of the federal processing system and of the reporting systems for individual programs. The Introduction for Chapter 1 lists the SFA Programs and contains a brief discussion of the contents and structure of this handbook. Chapter 1 contains two sections: General Program Information and References and Resources.

At the time this Handbook went to print, specific information was not available on certain topics. In each of these cases, we have noted that the Department will issue further guidance at a later date, generally in the form of a "Dear Colleague" letter or an Action Letter. In some specific cases, the Department will publish final regulations. When issued, this up-to-date information will also be available electronically on the SFA Bulletin Board System (BBS). The SFA BBS contains SFA publications that can be searched, copied, or downloaded through the internet. Most—but not all—of these same publications are also available on the SFA website. To connect to the BBS, call the Customer Support Branch at the telephone number listed on the inside cover. To connect to the SFA website, use the following address:

http://www.ed.gov/offices/OPE/Professionals/

For the most up-to-date information, participating schools should check the SFA website or the BBS regularly. In fact, all participating schools are required to have access to the SFA website or to the BBS by July 1, 1998. For more information on this requirement, see Chapter 3, Section 2.

Actions that conflict with ED guidance may be determined to be improper

Schools should understand the context in which the information in this handbook is given. The preamble to the General Provisions regulations published April 29, 1994 (34 CFR–Part 668) clarifies that guidance issued from ED in the form of manuals, handbooks, other publications, and "Dear Colleague" letters **does not** have the same legal force as regulations issued pursuant to formal rulemaking. Such guidance **does**, however, constitute a useful foundation for measuring how reasonable a school's (or a third-party servicer's) conduct is. Accordingly, school actions that conflict with guidance from ED may be determined to be improper if the actions indicate that the school did not make a good faith effort in administering the SFA Programs. Schools may be subject to penalties for such actions.

THE STUDENT FINANCIAL ASSISTANCE (SFA) PROGRAMS

The term "Student Financial Assistance (SFA) Programs" refers to programs administered by ED's Office of Postsecondary Education (OPE). The specific programs listed below and on the following page are authorized by Title IV of the Higher Education Act of 1965, so they are often collectively referred to as the Title IV programs.) The SFA Programs comprise the

- ◊ Federal Pell Grant Program,
- ◊ William D. Ford Federal Direct Loan (Direct Loan) Program,
- ◊ Federal Family Education Loan (FFEL) Program,
- ◊ Federal Perkins Loan (Perkins Loan) Program,
- ◊ Federal Work-Study (FWS) Program,
- ◊ Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and
- ◊ State Grant and Scholarship Programs.

These programs are covered individually in Section 1 of this chapter, beginning on page 5.

HOW THE SFA PROGRAMS ARE COVERED IN THE HANDBOOK

This publication consists of 11 chapters that cover the SFA Programs from the vantage point of the school's financial aid administrator. Chapter 1 provides a general introduction. Chapters 2 and 3 cover eligibility issues. Chapters 4 through 11 are program-specific. Each chapter title and purpose are covered below.

Chapter 1—Introduction and General Program Information

This chapter provides general information and references.

Chapter 2—Student Eligibility and Financial Need

This chapter addresses general student eligibility requirements (such as citizenship, satisfactory progress, financial need, and packaging) that apply to all the SFA Programs. Most of these requirements are based on the General Provisions regulations (34 CFR-Part 668).

Chapter 3—Institutional Eligibility and Administrative Requirements

This chapter explains school and program eligibility requirements that are common to all the SFA programs. These requirements are based on the Institutional Eligibility regulations (34 CFR-Part 600) and on the General Provisions regulations (34 CFR-Part 668). Chapter 3 also covers the general participation requirements, such as the use of financial aid transcripts and the NSLDS, refund and repayment procedures, recordkeeping and administrative procedures, and cash management requirements.

Chapter 4—Federal Pell Grant Program

This chapter explains how to calculate Pell Grant payments and how to report payments to ED.

Chapter 5—Campus-based Programs (Common Elements)

This chapter provides general information common to the three campus-based programs (Perkins, FWS, and FSEOG). **Chapters 6 through 8** cover those programs individually.

Chapters 6—Federal Perkins Loan Program

Chapter 7—Federal Work-Study Program

Chapter 8—Federal Supplemental Educational Opportunity Grant Program

These chapters cover the campus-based programs individually.

Chapter 9—State Grant Programs

This chapter discusses the state grant and scholarship programs (SSIG, Byrd, Douglas, and NEISP).

Chapter 10—Federal Family Education Loan Programs

This chapter covers the FFEL Program (Federal Stafford and Federal PLUS).

Chapter 11—William D. Ford Federal Direct Loan Program

This chapter covers the William D. Ford Federal Direct Loan Program (Direct Stafford and Direct PLUS).

OTHER USEFUL CONTACTS WITHIN THE DEPARTMENT

Your school may come into contact with several other offices within the Department of Education. These offices include the Office of Special Education and Rehabilitative Services (OSERS), the Office of Vocational And Adult Education (OVAE), and the Office of Bilingual Education and Minority Languages Affairs (OBEMLA). Two other Department offices you may have contact with are the Office of Inspector General (OIG) and the Office for Civil Rights (OCR).

Previously, when your school requested funds from the Department for the Federal Pell Grant, FSEOG, FWS, Perkins Loan, or the Direct Loan Program, that request was handled through the ED Payment Management System (ED/PMS, located within the Office of the Chief Financial Officer.

EDCAPS/ GAPS

In the 1997-98 Handbook, we stated that ED/PMS would be replaced by a new centralized financial management system called the Education Central Automated Processing System (EDCAPS). EDCAPS will be implemented during the first quarter of calendar year 1998. EDCAPS will contain the new Grants Administration and Payments System (GAPS).

Under GAPS, schools will request funds through each individual SFA program using the program and fiscal year designation (award number) that is assigned by the Department to the authorized funds. See Section 3 of Chapter 3 for further details on EDCAPS/GAPS and a contact telephone number and web site address.

section 1 General Program Information

This section starts out with a description of each SFA program, followed by a listing of statutes and regulations that apply to each SFA program. Finally, this section mentions several types of non-SFA assistance programs for students and provides information on other useful Department publications. In general, students apply for federal student aid by completing the *Free Application for Federal Student Aid* (FAFSA). Once the student applies he or she will receive a *Student Aid Report* (SAR), which contains the Expected Family Contribution (EFC). The application process is described in detail in the *Counselor's Handbook for Postsecondary Schools.*

Program requirements differ

The SFA Programs provide postsecondary students with need-based grants, loans, and work-study. Requirements differ somewhat for each program, depending on the type of aid provided and the manner in which funds are delivered to students. The SFA programs are described below.

SFA PROGRAM SUMMARIES

Federal Pell Grant Program

The Federal Pell Grant is usually considered the first source of student assistance. The Pell Grant is "portable" in that an eligible student may submit the SAR to any participating school and be assured payment. Students who apply electronically through the school will receive a SAR Information Acknowledgment. Electronic schools will receive an Institutional Student Information Report (ISIR). The ISIR and SAR contain the same processed student information in different formats. Pell Grant payments are not limited to the available funds at the school. ED provides an initial authorization for all participating schools and can increase the school's authorization when necessary. Consequently, the school is able to pay awards to all eligible students attending the school during a given award year.

Maximum award

The Pell Grant amount a student can receive is based on the student's EFC and cost of attendance. For the 1998-99 award year, the Department expects that the maximum award will be $3,000. The maximum amount had not been determined at the time this Handbook went to print. (See Chapter 4 for further information). The maximum Pell amount alone rarely meets a student's financial need. Therefore, additional funds are often available from other federal, private, or institutional sources.

William D. Ford Federal Direct Loan Program

The William D. Ford Federal Direct Loan (Direct Loan) Program provides student and parent loans. Under the Direct Loan Program the federal government provides the loan principal; private lenders are not involved. (Flexible repayment options and Consolidation Loans are also available.) Currently, over 1500 schools are eligible to participate in the Direct Loan Program. See Chapter 11 for more details about this program, or call the Direct Loan Task Force at 202-708-9951.

Direct Loan approval procedure

Under the Direct Loan Program, the school certifies a student's eligibility for the loan, and ED sends the loan funds directly to the school for delivery to the borrower. Direct Subsidized Loans, for student borrowers, are subsidized (that is, the federal government pays the accruing interest on the loan while the student is in school, during the grace period, and during deferment periods). An independent student in need of additional aid (or, in some cases, a dependent student whose parents cannot receive a PLUS Loan) may receive a Direct Unsubsidized Loan. (Interest accrues from the date that the first installment is disbursed and is the responsibility of the borrower.) For both types of loans, the borrower is not required to make payments until the he or she has left school and the grace period has expired.

Direct Loans for parents

The parent of a dependent student may borrow a Federal Direct PLUS Loan as long as the student is otherwise eligible for aid and the PLUS borrower meets other eligibility requirements found in 34 CFR Part 685.200 (b). This type of loan is also unsubsidized, so parent borrowers are responsible for accruing interest from the date the first installment is disbursed. Repayment begins as soon as the loan is fully disbursed, and there is no grace period.

Federal Family Education Loan (FFEL) Program

Under the FFEL Program, private lenders provide loan principal for Federal Stafford Loans (for student borrowers) and Federal PLUS Loans (for parent borrowers). The federal government guarantees the loan through a state guaranty agency. (Some schools act as lenders, and in some cases, the guaranty agency may act as a "lender of last resort.") If the student or parent borrower defaults on the loan (or if the loan is canceled), the lender can be reimbursed by the federal government.

The school certifies a student's eligibility for the loan, and then the guaranty agency and lender approve the loan. Then, the lender sends the loan amount to the school, which then disburses the proceeds to the student or—in the case of a PLUS Loan—to the parent.

FFEL loan approval procedure

Most Federal Stafford Loans are "subsidized" (that is, the federal government pays the accruing interest on the loan while the student is in school and during certain deferment periods). Throughout the life of the loan, the federal government also pays the lender a special allowance to cover the difference between the Stafford interest rate and the prevailing market rate. Repayment of loan principal does not begin until the student has left school and the grace period has expired.

An independent student in need of additional aid may also receive an unsubsidized Federal Stafford Loan. For these unsubsidized loans, however, interest accrues from the date of loan origination and is the responsibility of the borrower. Repayment of loan principal does not begin until the student has left school and the grace period has expired.

The parent(s) of a dependent student may also borrow a Federal PLUS Loan, provided the student is otherwise eligible for aid. PLUS loans are unsubsidized, so parent borrowers are responsible for accruing interest from the date of loan origination. Repayment begins while the student is still in school. There is no grace period.

FFEL loans for parents

FFEL Consolidation Loans are also available. Loan consolidation enables a borrower with loans from different lenders to obtain one loan with one interest rate and repayment schedule. The lender pays off the existing loans and makes one Federal Consolidation Loan to replace them.

Campus-Based Programs

There are three campus-based programs: Federal Supplemental Educational Opportunity Grants, Federal Work Study, and Federal Perkins Loans. They are called "campus based" because they are managed at the campus level. These programs provide grants (FSEOG), part-time employment administered through the school (FWS), and low-interest loans (Perkins). In the fall preceding the award year, the school submits to ED a fiscal report for the past year and an application for funds for the coming year (the report and application are jointly known as the Fiscal Operations Report and Application to Participate—FISAP). For Example, during the 1998-99 year, the school submits its fiscal report for 1997-98 and its application for funds for 1999-2000.

Each year, participating schools are allocated funds based on the anticipated financial need of its student body. (The funds are allocated based on the FISAP data.) The school must decide on the campus-based aid recipients and award amounts within certain regulatory parameters.

School decides on award amounts

There is a statutory limit on the amount of aid an individual may receive under the FSEOG and Perkins Loan programs. For the FWS, the sum of the student's FWS award plus other resources may not exceed his or her financial need. Most campus-based aid recipients who have remaining unmet need will be eligible for aid from other federal, private, or institutional sources.

Not all schools participate

Some schools that participate in other SFA Programs choose not to participate in the campus-based programs because of the increased administrative responsibility. For instance, when a school acts as a lender in the Federal Perkins Loan Program or as an employer in the FWS Program, the school must comply with many of the same legal requirements (such as the Fair Debt Collection Practices Act and the Fair Labor Standards Act) that apply to banks and businesses.

State Grants and Scholarships

ED also provides state agencies with funds for other grant and scholarships programs. The State Student Incentive Grant (SSIG), for instance, is a matching-funds program intended to assist states in providing grants to eligible students. Many of the eligibility criteria are established by the state agency, although SSIG recipients must also meet the same basic eligibility criteria applicable to the other SFA Programs.

Robert C. Byrd Honors Scholarship Program

Eligibility criteria for the Robert C. Byrd Honors Scholarship (Byrd Scholarship) Program differs from other SFA Programs. Byrd Scholarships are based on merit, not on financial need. Federal requirements for this program are described in Chapter 9. For information about student eligibility, program eligibility, and funding procedures, students should refer to materials provided by the Byrd agency in their state of residence.

Paul Douglas Teacher Scholarship Program

No new funding for the Paul Douglas Teacher Scholarship Program has been authorized since the 1996-97 year. However, any student who has received a Douglas Scholarship in the past and has not yet fulfilled the terms of that scholarship agreement must continue to fulfill those terms. Chapter 9, Section 3 covers the Douglas Scholarship Agreement in detail.

National Early Intervention Scholarship & Partnership Program

Under the National Early Intervention Scholarship and Partnership (NEISP) Program, the Secretary of Education provides states with grants for early intervention and scholarship assistance.

STATUTES AND REGULATIONS

The statutory authority for the SFA Programs is found in Title IV of the Higher Education Act of 1965, as amended. The programs were most recently reauthorized by the Higher Education Amendments of 1992 (HEA) and the Higher Education Technical Amendments of 1993 (HETA). The Omnibus Reconciliation Act of 1993 (OBRA) also affected certain aspects of the SFA Programs, as did the Improving America's Schools Act of 1994 (IASA).

SFA Program requirements are specified in Department regulations. Final regulations to be published in December 1997 will be effective for the 1998-99 award year. The SFA-related sections of the Code of Federal Regulations (CFR) are

- ◊ 34 CFR Part 600, Institutional Eligibility
- ◊ 34 CFR Part 602, Recognition of Accrediting Agencies
- ◊ 34 CFR Part 653, Paul Douglas Teacher Scholarship Program
- ◊ 34 CFR Part 654, Robert C. Byrd Honors Scholarship Program
- ◊ 34 CFR Part 668, Student Assistance General Provisions
- ◊ 34 CFR Part 673, Common Provisions for Campus-based Programs
- ◊ 34 CFR Part 674, 675, 676, Campus-based Programs
- ◊ 34 CFR Part 682, FFEL Program
- ◊ 34 CFR Part 685, William D. Ford Federal Direct Loan Program
- ◊ 34 CFR Part 690, Federal Pell Grant Program
- ◊ 34 CFR Part 692, SSIG
- ◊ 34 CFR Part 693, National Early Intervention Scholarship and Partnership Program

The following margin marker alerts the reader to major regulatory changes and to new guidance:

FUNDING OF SFA PROGRAMS

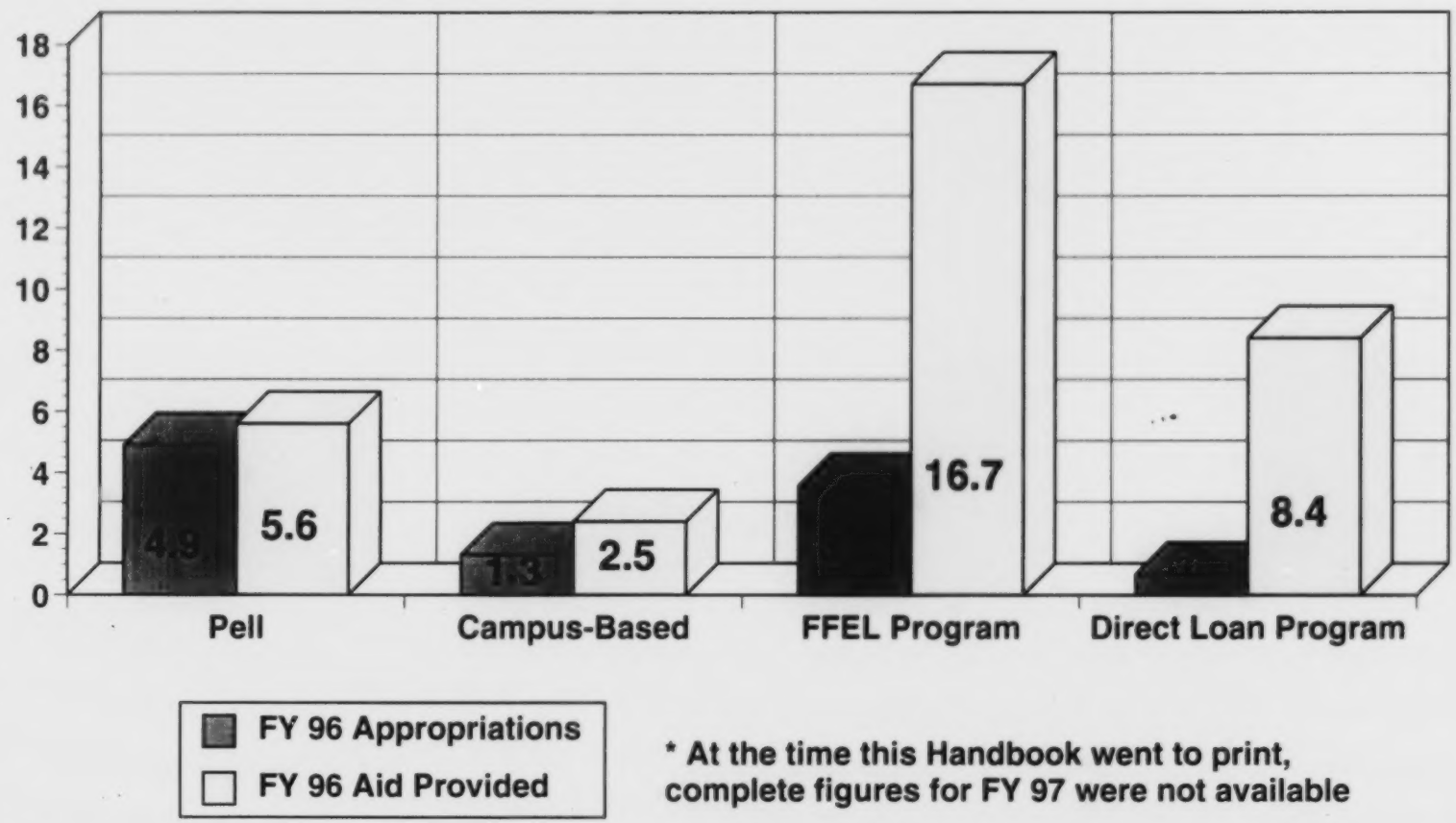
The federal government has a substantial interest in and commitment to federal student aid programs for students at the postsecondary level. Each year, the Administration and both Houses of Congress labor to adequately fund the student aid programs. The first column on the chart on page 11 shows the amounts appropriated under the Pell, campus-based, FFEL, and Direct Loan programs for FY 1996. The second column shows the actual aid provided under the programs for FY 1996. (Complete figures for FY 1997 were not available at the time this Handbook went to print.) The chart shows that in each case the federal appropriation does not represent the total amount of aid actually provided to students.

Under the Pell Grant Program, the increase represents a surplus from previous funding. Each participating school in the FWS and FSEOG programs contributes a share of its own funds to the amounts it receives from the Department. Schools participating in the Perkins Loan Program contribute a share of their own funds and also use funds repaid from outstanding loans to make new loans. Therefore, for the campus-based programs, the actual FY 96 aid provided was higher than the FY 96 appropriation. Under the FFEL Program, private lenders provide the capital for the FFEL Program loans, in addition to the federal funds spent on the program (which cover interest and special allowance payments, and other maintenance costs). For the Direct Loan Program, the capital used to provide loans to borrowers is provided through the U.S. Treasury Department through its regular Treasury bill auctions and through the receipt of loan repayments. The FY appropriation for the Direct Loan Program covers the operational costs of the program.

FFEL provided largest amount of aid to parents and students

For FY 96, the FFEL Program was the largest SFA program in terms of actual aid provided to students. As the chart on page 11 shows, 16.7 billion was provided to students and their parents.

FY 96 Appropriations Compared to Actual Aid Provided*



* At the time this Handbook went to print, complete figures for FY 97 were not available

OTHER ASSISTANCE PROGRAMS FOR STUDENTS

The SFA programs office is contained within the Office of Postsecondary Education (OPE). While the SFA programs provide students with aid directly, other offices within OPE and within the Department provide grants to states and to local education agencies that in turn administer those funds for education programs. Within OPE, one example of such a program is the Robert C. Byrd Scholarship Program, which is covered in Chapter 9 of this handbook. Examples of federal assistance outside of OPE include grants provided for aid to handicapped students through the Office of Special Education and Rehabilitative Services (OSERS) and grants provided for adult education and literacy through the Office of Vocational and Adult Education (OVAE). This aid is administered (under federal guidelines) by state agencies, local education agencies, or other state or local organizations, and students must meet designated eligibility criteria. More information on vocational rehabilitation programs, for example, may be available at local or state vocational rehabilitation offices.

Specific aid targeting particular groups of students

Several other federal agencies provide student financial aid that targets certain groups of students. Consider, for example, the financial aid offered through veterans educational benefits; tuition assistance payments through the Job Training and Partnership Act (JTPA) Program administered by the department of Labor; and the health loans and nursing scholarships from the Public Health Service (within the Department of Health and Human Services). For more information on these programs, contact the appropriate agency or the administering state agency.

OTHER USEFUL DEPARTMENT PUBLICATIONS

The handbook summarizes regulatory and statutory requirements related to SFA Program administration. Nonetheless, schools may find useful other Department publications that address special topics of interest to financial aid administrators. For instance, *The Counselor's Handbook* (the high school version and the postsecondary school version) discusses the application process and explains how to make corrections or other changes to application information. *The EFC Formula Book* offers a detailed description of the statutory formula used to calculate a student's Expected Family Contribution (EFC). The *Verification Guide* describes the procedures for verifying a student's application data. These publications are usually printed in the late fall or winter preceding the beginning of an award year.

Other SFA Program reference materials include a compilation of regulations affecting these programs and various publication indexes. While the handbook and related publications serve as comprehensive reference documents for financial aid administrators, additional resources may serve more specialized needs. Schools that use SFA Program automated data systems will automatically receive manuals and other materials describing the operating procedures for the Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), the electronic FISAP (report and application for campus-based program funds), and the electronic DRAP (default reduction assistance for Perkins/NDSL).

Publications for auditors and fiscal officers

ED also provides special publications for fiscal officers and auditors. *The Blue Book* describes accounting, recordkeeping, and reporting procedures for schools participating in the SFA Programs. ED's Payment Management System issues a *User's Manual* for the Automated Clearinghouse/Electronic Funds Transfer system—the direct deposit system that provides participating schools with SFA funds. The Office of Inspector General (OIG) publishes the *Audit Guide,* which identifies federal program compliance areas that must be reviewed by the auditor.

Throughout the award year, ED informs the financial aid community of policy and procedure changes via "Dear Colleague" letters.

Section 2 References and Resources

This section contains important names, addresses, and telephone numbers for both Headquarters and regional office personnel. These contacts include major areas within the Program Systems Service (PSS), which administers the operational aspects of the SFA programs; within the Accounting and Financial Management Service (AFMS), which is responsible for delivering and accounting for SFA funds; and within the Department's regional offices, which implement central office functions in the field.

Page 1-17 contains information on the Automated Data Exchange. The Automated Data Exchange is within the Recipient and Financial Management System (RFMS) Customer Service. This service includes the Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), and the Floppy Disk Data Exchange (FDDE). Pages 1-18 and 1-19 contain the Pell Grant Financial Management Specialists and Campus-Based Financial Management Specialists, respectively. These specialists are within AFMS.

ED regional offices

The next four pages contain contacts for the Department's regional offices. Page 1-20 shows the Direct Loan Task Force Client Account Management, including each region's address, telephone number, and states served. The general addresses for each of the 10 Department regional offices are shown on page 1-21. Page 1-22 contains the regional addresses for the Case Management Teams (formerly listed as the Institutional Review Branches in last year's Handbook), and page 1-23 contains the regional addresses of the Guarantor and Lender Review Branches within the Field Guarantor and Lender Review Division. Next, page 1-24 contains the ED regional map.

Telephone numbers and glossary

Pages 1-25 through 1-28 contain important toll-free telephone numbers for various service areas throughout SFAP and ED. A brief glossary of terms starts on page 1-29.

Automated Data Exchange Information

Recipient (Tape) Data Exchange
RFMS Customer Service 1-800-4-PGRANT

Floppy Disk Data Exchange
Pell Grant User Support Hotline 1-800-4-PGRANT

Electronic Payment Information
Pell Grant User Support Hotline 1-800-4-PGRANT
- Electronic Statement of Account
- Software Problems
- Payment Data Record Rejects

Electronic Data Exchange
Paul Mathis 202-708-8270
- Electronic Applications
- Institution Student Information Records (ISIRs)
- Electronic Corrections

Federal Pell Grant Program Financial Management Specialists Institutional Financial Management Division

If you have any questions about the information reported on Institutional Payment records, Batch Summaries, Student Payment Summaries, or the Pell Grant Statement of Account, you should contact the Recipient and Financial Management Service (RFMS) Customer Service at 1-800-4-PGRANT (1-800-474-7268) or the Financial Management Specialist assigned to your region. These specialists are listed below. (Backup representatives, along with their telephone numbers, are listed underneath the main representative in parentheses.)

Name (Alternate)	Telephone Number (Alternate)	Region (States and Other Jurisdictions)
Jeannette Bailey (Sarenia Newsom)	202-708-9232 (202-708-9233)	**I** (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)
Barbara Maddox (Shirley Purvis)	202-708-8825 (202-708-6822)	**II** (New Jersey, New York, Puerto Rico, and Virgin Islands)
Barbara Maddox (Jeannette Bailey)	202-708-8825 (202-708-9232)	**III** (Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia)
Shirley Purvis (Terry Brooks)	202-708-6822 (202-708-9231)	**IV** (Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee)
Terry Brooks (Barbara Maddox)	202-708-9231 (202-708-8825)	**V** (Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin)
Sarenia Newsom (Shirley Purvis)	202-708-9233 (202-708-6822)	**VI** (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas)
Sarenia Newsom (Carolyn Craddock)	202-708-9233 (202-708-7821)	**VII** (Iowa, Kansas, Missouri, and Nebraska)
Jeannette Bailey (no alternate)	202-708-9232	**VIII** (Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming)
Carolyn Craddock (no alternate)	202-708-7821	**IX** (Arizona, California, Hawaii, Nevada, and the Pacific Islands—American Samoa, Guam, Republic of Palau, Wake Island, and the Federated States of Micronesia)
Terry Brooks (Carolyn Craddock)	202-708-9231 (202-708-7821)	**X** (Alaska, Idaho, Oregon, and Washington)

Campus-Based Programs Financial Management Specialists Institutional Financial Management Division

When a school files the Fiscal Operations Report and Application to Participate (FISAP) requesting Campus-Based Programs funds for the following award period (schools must request funds for 1999-2000 during the 1998-99 award period, for example), the school will receive "Dear Colleague" letters notifying it of the tentative and final funding. (See Chapter 5 of this handbook for an explanation of the FISAP.) Questions regarding the FISAP or a school's funding levels should be directed to the designated Campus-Based Programs specialist. Below is a list of these specialists, along with their telephone numbers and the states that each specialist covers. Alternates, along with their telephone numbers, are listed in parentheses underneath the main specialist. You may also reach these specialists or alternates by fax at 202-260-0522 or 202-401-0387. If you have trouble reaching either your specialist or the alternate, you may call 202-708-7741.

Name (Alternate)	Telephone Number (Alternate)	States Covered
Vicki Roberson (Dinah Nelson)	202-708-7747 (202-708-8759)	•Louisiana, Maine, Maryland, Michigan, Massachusetts, Minnesota, and Montana
Dinah Nelson (Vicki Roberson)	202-708-8759 (202-708-7747)	•Florida, Mississippi, Ohio, and Pennsylvania
Carolyn Short (C. Franklin-Jones)	202-708-9184 (202-708-9183)	•Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, Puerto Rico, Utah, and Virgin Islands
Carol Franklin-Jones (Carolyn Short)	202-708-9183 (202-708-9184)	•Alabama, Alaska, Arizona, Colorado, Connecticut, Delaware, Georgia, Kentucky, Rhode Island, and Vermont
Rhonda Herbert (Jim Porter)	202-708-9191 (202-708-7752)	•Arkansas, District of Columbia, Hawaii, Tennessee, Texas, Virginia, and the Pacific Islands—American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, Northern Marianas, and the Federated States of Micronesia
Joseph Morris (Alice Payne)	202-708-8745 (202-708-9754)	•Idaho, Illinois, Indiana, Iowa, Kansas, and Missouri
Alice Payne (Joseph Morris)	202-708-9754 (202-708-8745)	•California and South Carolina
Jim Porter (Rhonda Herbert)	202-708-7752 (202-708-9191)	•North Carolina, North Dakota,Oregon, South Dakota, Washington, West Virginia, Wisconsin, and Wyoming
Mary Hubbard (Rhonda Herbert)	202-708-9230 (202-708-9191)	•Oklahoma

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Direct Loan Client Account Management

	Address and Telephone	States Served
Region I	10 Causeway Street 3rd. Floor - Room 341 Boston, Massachusetts 02222 617-565-6911	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	75 Park Place, 12th Floor New York, New York 10007 212-264-8012	New Jersey, New York, Puerto Rico, and the Virgin Islands
Region III	3535 Market Street, Room 2304 Philadelphia, Pennsylvania 19104 215-596-1716	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region IV	61 Forsyth Street, SW, Room 18T20-A Atlanta, Georgia 30303 404-562-6259	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Region V	111 North Canal Street, Room 830 Chicago, Illinois 60606-7206 312-886-8766	Illinois, Indiana, Michigan, Ohio, and Wisconsin
Region VI	1999 Bryan Street Suite 2735 Dallas, Texas 75201 214-880-2405	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Region VII	7505 Tiffany Springs Parkway, Suite 500 Kansas City, Missouri 64153-1367 816-880-4090	Iowa, Kansas, Missouri, and Nebraska
Region VIII	1391 N. Speer Boulevard, Suite 800-A Denver, Colorado 80204-2512 303-844-3677	Colorado, Minnesota, Montana, North Dakota, South Dakota, Utah, and Wyoming
Region IX	50 United Nations Plaza, Room 121 San Francisco, California 94102-4987 415-437-8843	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, the Northern Marianas, and the Federated States of Micronesia
Region X	1000 Second Avenue, Suite 1200 Seattle, Washington 98104-1023 206-287-9840	Alaska, Idaho, Oregon, and Washington

Department of Education
Student Financial Assistance Programs
Regional Addresses

Region I - Boston	Room 502 J.W. McCormack Post Office and Courthouse Bldg. Boston, Massachusetts 02109 617-223-9338
Region II - New York	12th Floor, Room 1206 75 Park Plaza New York, New York 10007 212-264-4022
Region III - Philadelphia	3535 Market Street, Room 16200 Philadelphia, Pennsylvania 19104 215-596-0247
Region IV - Atlanta	61 Forsyth Street, SW, Room 18T20 Atlanta, Georgia 30303-3104 404-562-6315
Region V - Chicago	111 North Canal Street, Suite 830 Chicago, Illinois 60606-7204 312-886-8767
Region VI - Dallas	1999 Bryan Street, Suite 2735 Dallas, Texas 75201 214-880-2405
Region VII - Kansas City	Northpointe Tower, 9th Floor 10220 NW Executive Hills Blvd. Kansas City, Missouri 64153-1367 816-880-4053
Region VIII - Denver	Parkway Center Building, Suite 800 1391 North Speer Denver, Colorado 80204-2512 303-844-3677
Region IX - San Francisco	50 United Nations Plaza, Room 268 San Francisco, California 94102-4987 415-437-8276
Region X - Seattle	1000 Second Avenue, Suite 1200 Seattle, Washington 98104-1023 206-287-1770

Case Management Teams
Case Management Divisions
Institutional Participation and Oversight Service

The Institutional Participation and Oversight Service contains four Case Management Divisions. These divisions perform similar functions, and each division is responsible for a separate section of the U.S. Each division implements the following case management team functions: audit resolution, program review, financial statement analysis, and recertification. The four divisions are:

- Case Management Division Northeast
- Case Management Division Southeast
- Case Management Division Southwest
- Case Management Division Northwest

The division functions are performed by teams headed by an Area Case Director and composed of staff from Washington, D.C. and the region. Each division contains two or more of these teams. Listed below are the teams, their telephone numbers, and the states each team is responsible for.

Team	Telephone #	States Covered
Case Management Division Northeast		
Boston Team	617-223-9338	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
New York Team	212-264-4022	New Jersey, New York, Puerto Rico, and Virgin Islands
Philadelphia Team	215-596-0247	Delaware, Maryland, Pennsylvania, Virginia, W. Virginia, and the District of Columbia
Case Management Division Southeast		
Atlanta Team	404-562-6315	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Kansas City Team	816-880-4053	Iowa, Kansas, Missouri, and Nebraska
Case Management Division Southwest		
Dallas Team	214-767-3811	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
San Francisco Team	415-437-8276	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, Northern Marianas, and the Federated States of Micronesia
Case Management Division Northwest		
Chicago Team	312-886-8767	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin
Seattle Team	206-287-1770	Alaska, Idaho, Oregon, and Washington
Denver Team	303-844-3677	Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming

The Case Management Division Northeast is also responsible for certification and monitoring of foreign schools. For information on foreign schools you should contact 202-205-0183.

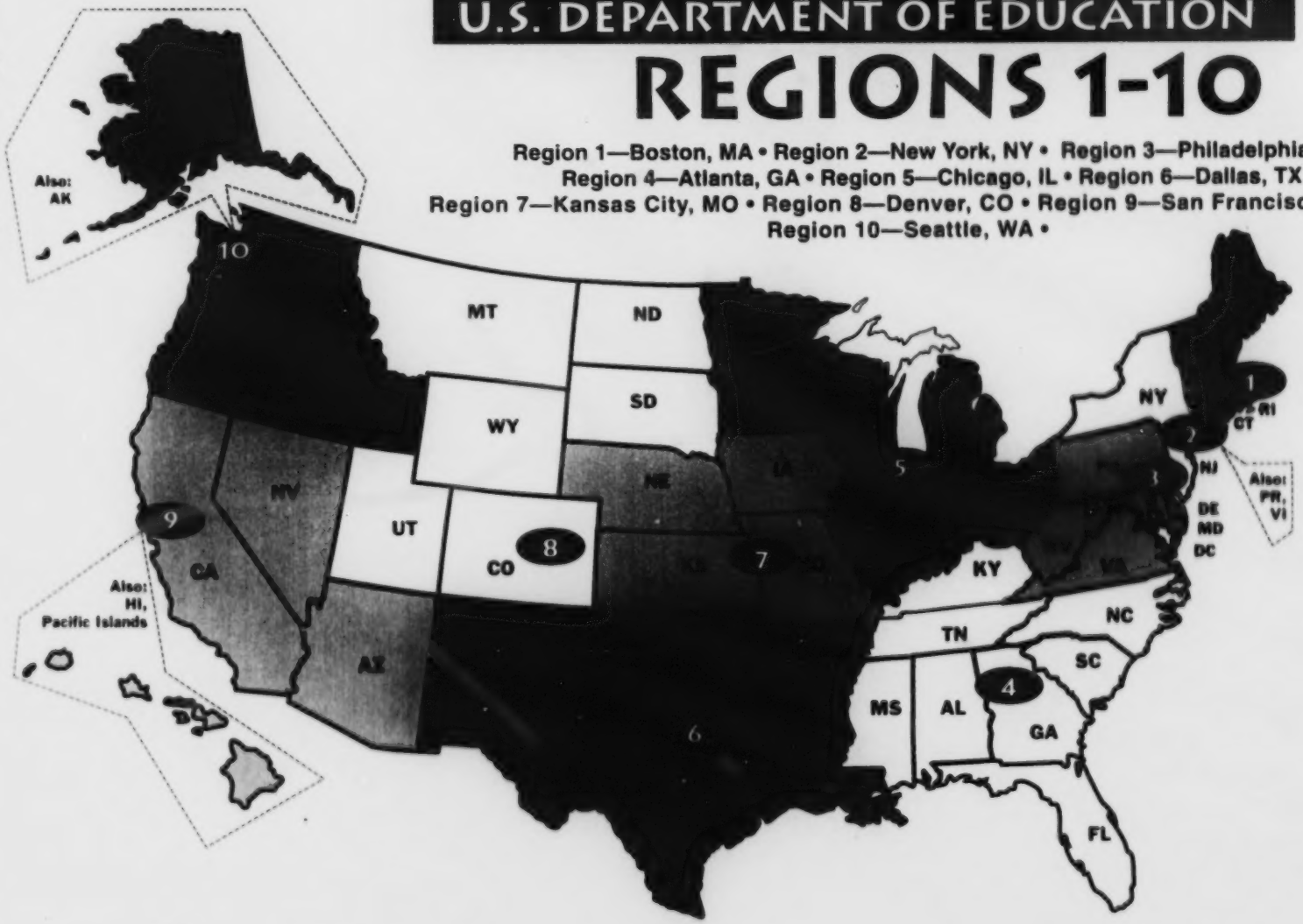
Guarantor and Lender Review Branches
Field Guarantor and Lender Review Division
Guarantor and Lender Oversight Service

	Branch	States Served
Region I	J. W. McCormack Post Office and Courthouse Bldg., Room 502 Boston, Massachusetts 02109 617-223-9328	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	75 Park Plaza, Room 1206 New York, New York 10007 212-264-4022	Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, West Virginia, Virgin Islands, Puerto Rico, and the District of Columbia
Region III	No Branch (served by Region II)	
Region IV	61 Forsyth Street, SW, Room 18T20-A Atlanta, Georgia 30303 404-562-6287 (Region VI phone number is backup)	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Region V	111 North Canal Street, Suite 830 Chicago, Illinois 60605 312-886-8767	Illinois, Indiana, Michigan, Minnesota Ohio, and Wisconsin
Region VI	1999 Bryan Street, Suite 2735 Dallas, Texas 75201 214-880-2405	Arkansas, Iowa, Kansas, Kentucky, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, and Texas
Region VII	No Branch (served by Region VI)	
Region VIII	No Branch (served by Region IX)	
Region IX	50 United Nations Plaza San Francisco, California 94102 415-437-8200	Alaska, Arizona, California, Hawaii, Idaho, Nevada, Colorado, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming, American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, the Northern Marianas, and the Federated States of Micronesia
Region X	No Division (served by Region IX)	

U.S. DEPARTMENT OF EDUCATION

REGIONS 1-10

Region 1—Boston, MA • Region 2—New York, NY • Region 3—Philadelphia, PA •
Region 4—Atlanta, GA • Region 5—Chicago, IL • Region 6—Dallas, TX •
Region 7—Kansas City, MO • Region 8—Denver, CO • Region 9—San Francisco, CA •
Region 10—Seattle, WA •



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Federal Student Aid Information Center

The ED student information line **1-800-4-FED AID (1-800-433-3243)** provides assistance to callers in completing the federal application as well as providing information on the federal student aid programs administered by ED. This number serves as a dissemination point for many ED publications and video products. People who are hearing impaired may call **1-800-730-8913**.

Inspector General's Hotline

The hotline to the U.S. Department of Education's Inspector General's Office is **1-800-MIS-USED (1-800-647-8733)**. Call this number if you have reason to expect any fraud, waste, or abuse involving federal student aid funds.

Debt Collection Service for Department-held Loans

Borrowers who have defaulted loans **held by the Department** can call **1-800-621-3115** to find out who is handling their accounts, how much they owe, and where to send payments. If the loan is not held by the Department, it will be held by a school, bank or other lender, or guaranty agency, depending on the type of loan.

Customer Support Branch

Financial aid professionals may call this number **(1-800-4-ED-SFAP—1-800-433-7327)** for information about complying with SFA Program requirements through individual inquiry response and through the SFA Bulletin Board System (BBS). Inquiries are usually submitted over the telephone, by fax, or by e-mail. Information is provided through the BBS, an on-line interactive bulletin board that contains SFA publications (such as Dear Colleague letters, Q and A bulletins, handbooks, and Federal Registers). Publications on the BBS are in an electronic Internet format that can be searched, copied, or downloaded.

National Student Loan Data System Customer Service Center

This number is **1-800-999-8219**. The National Student Loan Data System (NSLDS) is a national database of Title IV loan-level information and selected grant data. Enrolling in the NSLDS is required of all institutions that participate in Title IV federal student financial aid programs. The NSLDS includes information on the FFEL, Direct Loan, and Perkins Loan programs; on Pell awards and disbursements, and on Pell and FSEOG overawards.

Application Ordering System

You can reach ED's automated Application Ordering System (AOS) by calling **1-800-284-2788**. Through AOS, financial aid offices may order bulk quantities of the *Free Application for Federal Student Aid* (FAFSA), the Spanish version of the FAFSA, and the *Student Guide*. You may also call this number using a touch tone telephone to check the status of orders and to enter new orders. When you call this number, the automated voice system will prompt you for your school's mailing list number. You may also check on the status of previous orders.

Institutional Access System

Schools should contact the Institutional Access System (IAS) **(1-800-4-PGRANT—1-800-474-7268)** for access to their Federal Pell Grant payment information or speak with an RFMS Customer Service representative.

Title IV Wide Area Network

The customer service number for the Title IV Wide Area Network (known as TIV WAN or Title IV WAN) is **1-800-615-1189**. Title IV WAN is ED's vehicle for electronically transmitting and receiving data on financial aid programs authorized under Title IV of the Higher Education Act, as amended. Title IV WAN transmits Data from ED's Electronic Data Exchange (EDE),[1] the Direct Loan Program, and the National Student Loan Data System (NSLDS). If your school is completing the enrollment agreement to participate in Title IV WAN services or if you have questions on operating on TIV WAN in a mainframe environment, you may call this number.

Central Processing System Automated Customer Service Line

The Central Processing System (CPS) Automated Customer Service line is **1-800-330-5947**. CPS Customer Service can assist you with Renewal Application Data (RAD) requests. It is also the customer service number for the Institution Applicant Data Service (see footnote below). ED makes electronic Institutional Student Information Records (ISIRs) containing student financial aid applicant data available to institutions on tape or cartridge up to 40 times during the processing year.

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[1] In addition to the EDE and Institutional Applicant Data Service, ED also administers the Federal Pell Grant Recipient Data Exchange (RDE) and the Federal Pell Grant Floppy Disk Data Exchange (FDDE). RDE and FDDE allow institutions to submit Pell Grant payment data to ED and to receive back processed payment data and student payment summary data via tape cartridge or floppy diskette.

FAFSA on the Web/FAFSA Express Customer Service Line

The *FAFSA on the Web/FAFSA Express* customer service line **(1-800-801-0576)** provides support to applicants who apply on-line using *FAFSA on the Web* or applicants who use *FAFSA Express* software. Applicants who use FAFSA on the Web apply on-line and submit their application via the internet. Applicants who use *FAFSA Express* complete their applications electronically and have their application information transmitted directly to the central processor. Customer service representatives are available to answer application status questions and to provide other application-related technical assistance.

Closed School Information

This information hotline is **1-800-CLOSE-IN—1-800-256-7346**. Students may call this hotline and automatically have a closed school fact sheet mailed to them. Schools and state licensing agencies may also use this number to contact their assigned closed school specialists for assistance relating to a Title IV school closing

William D. Ford Federal Direct Loan (Direct Loan) Program—Loan Origination Center

The Loan Origination Center (School Relations) can be reached at **1-800-848-0978**. Direct Loan schools may call this number if they have questions on promissory note processing, alternative origination processing, reconciliation issues, Acknowledgments, or Testing. Direct Loan schools may also call this number to order bulk forms/ publications, such as 1998-99 promissory notes and related materials. Schools may also fax their orders to the Loan Origination Center at **1-800-557-7396**.

Direct Loan Consolidation Department

Borrowers trying to consolidate their loans under the Direct Consolidation Loan Program may call the Consolidation Center of ED's Loan Origination Department at **1-800-557-7392**. The TDD number for the hearing impaired is **1-800-557-7395**.

Direct Loan Custom/Combo School Technical Support

The Direct Loan Custom/Combo School Technical Support line can be reached at **1-800-756-4220**. It provides support to Direct Loan users who are creating their own Direct Loan processing system or a Direct Loan interface with the EDExpress software. The technical support staff can explain the Direct Loan Technical Reference, provide Direct Loan process "walkthroughs," and help users develop files to import into EDExpress. Users who receive error or warning messages when trying to import these files should contact the technical support staff for troubleshooting advice.

Direct Loan Servicing Center

The Direct Loan Servicing Center maintains records of individual borrower accounts and payments made on those accounts. Borrowers may also obtain information on deferment and repayment options. The address and appropriate telephone numbers of the borrower's servicing center will be printed on that borrower's loan documentation.

Direct Loan Servicing Center (Utica, New York)

Borrower Services	**1-800-848-0979**
Delinquent Accounts/Collections Department	**1-800-848-0981**
School Relations	**1-888-877-7658**
TDD	**1-800-848-0983**
FAX	**1-800-848-0984**

As an alternative, borrowers may call either Central Borrower Services at **1-888-447-4460** or Central School Relations at **1-888-445-7745**.

Academic Year. A period of time schools use to measure a quantity of study. For example, a school's academic year may consist of a fall and spring semester, during which a student must complete 24 semester hours. Academic years vary from school to school, and even from educational program to educational program at the same school. The school defines its own academic year, but federal law and regulations set minimum standards for SFA purposes. For example, every eligible school, including graduate programs, must have a defined academic year that contains a minimum of 30 weeks of instructional time.

Award Year. Spans from July 1 to June 30 of the next year. For the Federal Pell Grant and campus-based programs, eligible students are paid out of funds designated for a particular award year, such as the 1998-99 award year (July 1, 1998 to June 30, 1999).

Base Year. For need analysis purposes, the calendar year preceding the award year. For instance, 1997 is the base year used for determining eligibility in the 1998-99 award year.

Campus-based Programs. The Federal Perkins Loan, Federal Work-Study (FWS), and Federal Supplemental Educational Opportunity Grant (FSEOG) programs are often collectively referred to as the campus-based programs because the funds for these programs are administered directly by the school's financial aid office.

Central Processing System (CPS). The Department's application data processing facility, currently located in Iowa. The CPS uses student information from the *Free Application for Federal Student Aid* (FAFSA) processors to calculate the student's official Expected Family Contribution (EFC), and creates an Individual Student Information Record (ISIR) and prints the *Student Aid Report* (SAR).

Cost of Attendance (COA). Includes tuition, fees, the student's living expenses while he or she is attending school, and other costs such as costs related to a disability or for dependent care. The COA is determined by the school, using guidelines established by federal law to determine the figure. The COA, together with the student's Expected Family Contribution (EFC), helps determine the student's need for SFA funds.

Default. Occurs when the borrower fails to repay a loan in accordance with the terms of the promissory note.

Estimated Financial Assistance (EFA). The amount of student financial aid the student may expect from federal, state, school, or other sources (including grants, loans, or need-based work programs). The school must consider this available assistance when determining a student's eligibility for a Federal Family Education Loan and for a Direct Subsidized Loan.

Expected Family Contribution (EFC). The amount that the student's family is expected to contribute toward the cost of attendance. This amount is usually based on the family's income and assets. The EFC, together with the student's cost of attendance (COA), helps determine the student's need for SFA funds.

FAFSA. See *Free Application for Federal Student Aid.*

FAFSA processors. Agencies that process the *Free Application for Federal Student Aid* (FAFSA) under contract with the U.S. Department of Education. For more information, see the *Counselor's Handbook.*

Financial Need. Generally, the difference between the student's cost of attendance (COA) and the Expected Family Contribution (EFC).

Free Application for Federal Student Aid (FAFSA). The application that the student must file to apply for aid from any SFA program, including the FFEL and Direct Loan Program. The FAFSA is printed and distributed free of charge by the U.S. Department of Education. Students may also apply through the internet by using FAFSA on the Web, by using FAFSA Express software, or by having their schools submit their applications electronically.

Institution. A postsecondary educational institution. In this handbook, the terms "school" and "institution" are often used interchangeably.

Institutional Student Information Request (ISIR). The ISIR and the Student Aid Report, covered later in this glossary, are both federal output documents processed by the CPS. The SAR is sent to the student, while the ISIR is sent to the student's school. SARs and ISIRs contain the same processed student information in different formats.

Need analysis. The process of using a student's household and financial information (derived from the financial aid application) to calculate the amount the family can be expected to contribute to educational costs. For the SFA Programs, the need analysis calculation is defined by law and results in the Expected Family Contribution (EFC).

Overaward. Generally, any campus-based, FFEL, or Direct Loan funds disbursed in excess of the student's financial need. (The overaward concept does not apply to the Federal Pell Grant Program.)

Overpayment. Any payment of a Federal Pell Grant, FSEOG, Federal Perkins Loan, or SSIG that exceeds the amount for which the student was eligible. An overpayment may be the result of an overaward, an error in calculating the cost of attendance (COA) or the Expected Family Contribution (EFC), or a student's failure to meet any other eligibility criteria, such as citizenship or enrollment in an eligible program.

Professional Judgment. While the Expected Family Contribution (EFC) calculation is defined by law, the law does provide some flexibility. The financial aid administrator can make individual adjustments, based on his or professional judgment, to override a student's dependency status (from dependent to independent), to adjust the components of a student's cost of attendance (COA), and to adjust the data elements used to calculate the student's EFC. Such adjustments must be made on a case-by-case basis, and the reasons for the adjustment must be documented in the student's file. See the *Counselor's Handbook* for more information.

Promissory Note. A legal document that must be signed to obtain a loan. By signing, the borrower promises to repay the loan, with interest, in specified installments. The promissory note also includes any information about the grace period, deferment or cancellation provisions, and the student's rights and responsibilities with respect to the loan.

Resources. The amount of student financial aid the student may expect from federal, state, school, or other sources (as defined in the campus-based regulations). The school must consider this available assistance when determining a student's eligibility for campus-based funds.

School. A postsecondary educational institution. In this handbook, the terms "school" and "institution" are often used interchangeably.

SFA Programs. The Student Financial Assistance (SFA) Programs administered within the U.S. Department of Education. These programs include Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, Federal Perkins Loans, Federal Family Education Loans, Federal Direct Loans, State Student Incentive Grants, and Byrd and Douglas Scholarships.

Student Aid Report (SAR). The federal output document printed by the CPS and mailed to the student. The SAR contains the family's financial information and other information as reported by the student on the FAFSA. The student's eligibility for aid depends on the Expected Family Contribution (EFC) that is derived by the processor and printed on the

front of the SAR. Schools that participate in the Electronic Data Exchange (EDE) and other services offered by the Department may receive the information on the SAR through these services. For more information, see the *Counselor's Handbook*. Students who apply electronically will initially receive a SAR Information Acknowledgments instead of a paper SAR.

Verification. The Central Processing System will select a certain percentage of FAFSAs, some randomly and others based on certain edit criteria, for data verification. Schools must verify certain data reported on these FAFSAs, using documentation provided by the student. (Many schools also choose to verify additional applications beyond those selected during processing.) For more information, see the *Verification Guide*.

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 2

Student Eligibility and Financial Need

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CONTENTS

CHAPTER 2
STUDENT ELIGIBILITY
AND FINANCIAL NEED

INTRODUCTION **1**
Recent Changes 2

SECTION 1: STUDENT ELIGIBILITY **3**
Citizenship 3
Enrollment as a Regular Student in an Eligible Program 7
High School Diploma; Ability To Benefit 9
Remedial Coursework for Postsecondary Study 15
Enrollment Status 17
Satisfactory Progress 18
Loan Defaults and Overpayments 23
Bankruptcy 26
Eligibility After Total and Permanent Disability Cancellation 26
Valid Social Security Numbers 28
Registration with Selective Service 31
Borrowing in Excess of Loan Limits 36
Members of Religious Orders 37
Incarcerated Students 37
Correspondence and Telecommunications Courses 37
Student Certifications and Statements 37
Specific Program Requirements 38

SECTION 2: THE STUDENT'S FINANCIAL AID HISTORY **39**
NSLDS Match 40
Checking Previous Attendance 41
Using NSLDS for Financial Aid Histories 42
Requesting FAT information 43
NSLDS and Midyear Transfers 45
Payment and Certification Options 46
Sending a Transcript 47
Required Information Items 47
Model Transcript 50

SECTION 3: OVERVIEW OF FINANCIAL NEED 53
Expected Family Contribution 54
Professional Judgment 56
Cost of Attendance (COA) 57
Award Calculations, Resources, and Estimated Financial Assistance 60
Packaging Aid 65
Overawards 67

APPENDIX A: DOCUMENTING CITIZENSHIP STATUS 71
U.S. Citizen or National 73
Citizens of the Pacific Islands 76
Other Eligible Categories 76
Student Rights with Respect to the Computer Match 79
Using the G-845S for Secondary Confirmation 81
Documentation of Permanent-Residence Status 83
Documentation for Other Categories of Eligible Noncitizens 84
Interpreting the G-845S 88
Updating Eligible Noncitizen Status in Later Award Years 92
Replacing Lost INS Documents 93
Additional Information 93

APPENDIX B: SELECTIVE SERVICE STATUS INFORMATION LETTERS 113

APPENDIX C: ELIGIBILITY MATCH RESULTS 127

Introduction

This chapter of *The Federal Student Financial Aid Handbook* describes the student eligibility requirements that affect the Student Financial Assistance (SFA) Programs. The calculation of financial need, a key determinant of student eligibility, is examined here, as are the details that pertain to documenting citizenship status and other eligibility criteria. Documentation necessary for proving citizenship status, information on eligibility matches, and the Selective Service's Status Information Letters appear in the appendices.

Output document

Schools and students receive information about the student's eligibility from the Central Processing System (CPS) on several different types of documents. These documents are the *Student Aid Report* (SAR) and *SAR Information Acknowledgement*, which are sent directly to the student, and the *Institutional Student Information Record* (ISIR), which is sent to schools either through the Electronic Data Exchange (EDE) or on tapes and cartridges. Throughout this chapter, we will use the term output document to refer to all of these CPS-produced documents.

Record retention

Schools are required to document that a student meets the eligibility requirements described in this chapter, and so must keep certain documents, such as output documents or financial aid history information. Although this chapter mentions some items that must be documented, Chapter 3, Section 7 has a detailed discussion of which records must be kept and how long they must be retained.

Conflicting information

A school is also required to reconcile any conflicting information it has about a student's eligibility before it pays the student. The school must consider all information available to it, not just the information on the *Free Application for Federal Student Aid* (FAFSA). If a school has conflicting information about a student or reason to believe the application information is incorrect, it must resolve the discrepancy before disbursing federal student aid. (See *The Verification Guide* for more about the general requirement to reconcile all conflicting information.)

RECENT CHANGES

There have been a few changes relating to the determination of student eligibility for 1998-99:

- ◊ On September 19, 1997, the Department published a *Federal Register* notice listing deadlines for schools to participate in certain electronic processes. For 1998-99, schools must be able to receive ISIRs electronically, and must be able to add the school's Title IV Code to the CPS record for any student who provides a SAR to the school. Schools must also have on-line access to the National Student Loan Data System (NSLDS). See Chapter 3 for general information on the electronic processes notice.

- ◊ The Department has added a new process called "postscreening" as part of NSLDS. There have also been some changes to the information provided from NSLDS on the output document to help aid administrators use the NSLDS system more effectively. See Section 2 for more on NSLDS.

As noted in the text, other possible changes were under discussion at the time this Handbook went to print. The Department also expects to issue further guidance on some topics.

- ◊ The Department is developing an Action Letter to provide more information to schools on the requirements listed in the electronic processes notice.

- ◊ The current list of approved ability-to-benefit tests is being reviewed to determine if they can be used for students with disabilities (see page 2-10).

- ◊ The Department is planning to modify NSLDS to allow schools to report Pell, Perkins and FSEOG overpayments (see page 2-26).

- ◊ As part of the introduction of the Renewal FAFSA on the Web, the Department may allow the student to provide a "digital signature" rather than submitting a signature page (see page 2-37).

Up-to-date information on these and other topics will be available on the SFA BBS. In addition, for detailed information about any processing changes, and the processing system in general, see *A Guide to 1998-99 SARs and ISIRs* and the 1998-99 *Counselor's Handbook for Postsecondary Schools*.

section 1 Student Eligibility

This section addresses the student eligibility criteria common to most Student Financial Assistance (SFA) Programs. Although programs vary, basic requirements (such as citizenship and satisfactory progress) remain the same for every student—whether the student is applying for grants, loans, or work-study. (See chapters 4 through 11 for information on specific requirements that apply to individual programs.)

Student eligibility criteria are often affected by requirements or policies determined by individual schools. For instance, a student must be meeting satisfactory academic progress standards to receive aid; a school, however, must have established a satisfactory progress policy for the purpose of monitoring whether the student meets the required standards. Note that many institutional requirements mentioned in this chapter are also discussed in detail in Chapter 3.

CITIZENSHIP

A student must be in one of the following citizenship categories to be eligible for aid through the SFA Programs (see Appendix A for details on documenting these statuses).

Eligibility categories

1. **A U.S. citizen or national.** The term "national" includes citizens of American Samoa and Swain's Island.

2. **A U.S. permanent resident.** A permanent resident's citizenship status should be evidenced by a comment on an output document indicating that an Immigration and Naturalization Service (INS) match has been successful. If no such comment appears on the output document, the permanent resident must provide the school with INS documentation verifying his or her citizenship status.

3. **Citizens of certain Pacific Islands.** Otherwise eligible citizens of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau may receive only three

types of SFA Program aid: Federal Pell Grants, Federal Supplemental Educational Opportunity Grants (FSEOGs), and Federal Work-Study (FWS) funds.

4. **Other eligible noncitizens.** Refugees, persons granted asylum, Cuban-Haitian entrants, and others are included in this category. Such individuals must provide the school with INS documentation indicating that they are in the United States not with the intention of staying temporarily but with the intention of becoming U.S. citizens or permanent residents.

An individual who is in category 1, 2, or 4 and attends an eligible school in the United States is eligible for any type of aid through the SFA Programs. If attending foreign schools that participate in the Federal Family Education Loan (FFEL) Program, these individuals may also receive FFELs. In the case of a parent who wants to take out a Federal PLUS Loan for a dependent undergraduate student, the parent and the student must be U.S. citizens or nationals, permanent residents, or eligible noncitizens (that is, categories 1, 2, or 4).

SSA citizenship match

All applications automatically go through the Social Security Administration (SSA) matching system, which verifies both U.S. citizenship status and social security numbers (SSNs). The result of the SSA citizenship match is reported on the output document (see page 2-28 for information on the SSN match).

When the student reports that he or she is a citizen and the SSA confirms this, there will be no comment on the output document. The match flag, reported as "SSA Citizenship Code" (on the SAR) or "SSA" (on the ISIR) in the FAA Information section, will be "A" or blank. If the SSA did not confirm that the student is a citizen, a comment will be provided explaining that the student either needs to provide documents proving citizenship or make a correction to show that he or she is an eligible noncitizen (Comment 146). (See Appendix A for information on acceptable documentation.) If SSA could not find a match in its database for the student's SSN, name, or date of birth, there will be a comment stating that SSA could not confirm citizenship because of a question about these items (Comment 62). In this case, the student must correct his or her information.

If a student leaves the citizenship question blank on the FAFSA (question 15) but the SSA reports that the student is a U.S. citizen, the CPS will not necessarily reject the application for lack of citizenship information. If there was a complete match with the student's SSN, name, date of birth, and U.S. citizenship, the CPS will instead assume the student is a citizen. The CPS will still reject the application if one of the items did not match, or if the SSA match shows the student is not a citizen.

The CPS will rematch the student's record with the SSA database if the student corrects the SSN, the first or last name, or date of birth. Once all four SSA match elements (SSN, citizenship, name, date of birth) have been confirmed, the SSA Citizenship Flag will be carried forward to the next year's Renewal Application and the match will not need to be performed again in subsequent years (unless the student changes any of the match elements on a later application).

Match carryover to later years

Note that U.S. citizens born abroad might fail the SSA citizenship match unless they have updated their citizenship information with the SSA (see Appendix A for more information on how students born abroad should proceed).

Citizens born abroad

Primary Confirmation

To verify the citizenship statuses of U.S. permanent residents and other eligible noncitizens, the Department collects Alien Registration Numbers (A-Numbers) on the FAFSA. (The INS assigns A-Numbers to all legal immigrants.) If the applicant indicates on the FAFSA that he or she is an eligible noncitizen and provides an A-Number, identifying information from the FAFSA is automatically sent to the INS for confirmation. This verification process, performed by the INS, is known as "Primary Confirmation."

Match with INS records

If a student mistakenly reports that he or she is a citizen rather than an eligible noncitizen, the school may make the correction electronically, or the student may correct the mistake on the SAR. In either case, the student must be sure to provide his or her A-Number. The CPS then processes the student's correction and conducts a match with the INS database.

When an INS match is conducted, a 13-digit INS Verification Number is assigned to the student and printed in the FAA Information section. If the student's citizenship is not confirmed, the student's data generally must be checked through the Secondary Confirmation process (discussed below). The INS Verification Number must be provided on the Secondary Confirmation Request Form (see Appendix A for an explanation of how to complete this form). Note that if no INS match can be made because a student failed to provide an A-Number on the application, that student will not receive an INS Verification Number. The student's information should be resubmitted with the A-Number so that a computer match may be attempted.

INS Verification Numbers

Because all applications are sent to the SSA match, an application that undergoes the INS match will also undergo the SSA citizenship match. In cases where the INS match is conducted, the SSA citizenship match flags will not be provided on the output document, and the school should follow the usual procedures for resolving any INS match discrepancies.

Secondary Confirmation

If the INS is unable to confirm a student's claim to be an eligible noncitizen or a school has conflicting information about a student's citizenship status, the school has to collect additional documentation and submit it to INS. This collection and submission of additional material is known as "Secondary Confirmation." See Appendix A for detailed information about Secondary Confirmation.

Exception to Secondary Confirmation requirement—34 CFR 668.133(b)

There is one exception to the requirement to conduct Secondary Confirmation. A school is not required to request Secondary Confirmation if the student was determined to be an eligible noncitizen through Secondary Confirmation in a previous award year, and the documents used for that Secondary Confirmation have not expired. The school must also have no conflicting information about the student and no reason to doubt the student's claim of having eligible noncitizen status.

Changes in Status During the Award Year

Pell & campus-based

If a student becomes a citizen or eligible noncitizen at any time during the award year, that student may be paid Pell Grant or campus-based funds as if he or she had been eligible the entire award year. For example, if a student attending school during the 1998-99 award year (July 1, 1998 to June 30, 1999) is granted permanent-resident status in May 1999 and is still enrolled in school at that time, that student may receive Pell Grant and campus-based funds as if he or she had been eligible in every payment period that the school considers part of that award year.

FFELs & Direct Loans

Similarly, if a FFEL or Direct Loan borrower becomes a U.S. citizen or an eligible noncitizen during a period of enrollment, the borrower may be paid as if he or she had been a U.S. citizen or eligible noncitizen during the entire period of enrollment. In a case where the period of enrollment is an academic year, the student would be eligible for the full annual maximum loan, regardless of when during the academic year he or she became eligible. For example, suppose a student begins a two-year program in July 1998 and is not a citizen or eligible noncitizen. The student becomes an eligible noncitizen in April 1999 and her second academic year begins in May 1999. The student could receive a loan for the entire first year, up to the annual limit, and then receive a loan for the second academic year beginning in May.

Note that while a period of enrollment for a loan may cross an award year, it must coincide with academic terms such as an academic year, semester, trimester, quarter, or other academic period (as defined by the school). Therefore, the school will not always be able to include the student's entire previous enrollment in the loan period when the student

becomes eligible. In the example above, suppose the student becomes eligible after May 1999, after she has started the second academic year. Because there is no academic term that includes both academic years, the enrollment period can include only the second academic year and cannot be adjusted to include any part of the first academic year. Therefore, the student is not allowed to receive a loan for the first year but is allowed to receive the full amount for which she is eligible as a second-year student.

Loss of eligibility

A school is required to check a student's citizenship eligibility status only once during the award year (or period of enrollment for FFELs and Direct Loans), when aid is first disbursed. If a student later loses citizenship or eligible noncitizenship status during that award year or period of enrollment, the school does not need to take any action to prevent the student from receiving subsequent disbursements.

ENROLLMENT AS A REGULAR STUDENT IN AN ELIGIBLE PROGRAM

With limited exceptions, an individual must be enrolled as a regular student in an eligible program in order to receive SFA funds. A regular student is one who is enrolled for the purpose of obtaining a degree or certificate offered by the institution.

Definition of eligible program

The regulatory definition of an eligible program is based on requirements found in statutory language defining eligible institutions. To qualify as an eligible institution, a school must offer at least one eligible program. However, not all programs at an eligible institution will be eligible. Indeed, factors such as course length or admissions requirements may prevent some programs at eligible schools from qualifying as eligible programs. Financial aid administrators should carefully study the material in Chapter 3 on program eligibility.

Three aspects that largely define an eligible program are especially important to note—the education credentials that the program awards, its length in instructional time and coursework offered, and, for "short term programs," compliance with certain qualitative factors including completion and placement rates. These qualitative factors are discussed in Chapter 3, Section 1.

Study abroad

The eligible program requirements also apply to study-abroad programs approved for credit by eligible institutions. Again, to receive aid, a student in a study-abroad program must be enrolled as a regular student at the eligible institution approving the coursework. There also must be a contractual agreement between the home institution and the foreign school (see Chapter 3, Section 5).

Minimum length

The minimum length required for a program to be considered eligible varies according to the type of institution. Note that program length determines a program's eligibility and affects the amount of aid that may be awarded to students in the program. The amount of a student's Pell Grant, Stafford Loan, or Direct Loan will be reduced if the program is less than an academic year long. (See Chapters 4, 10, and 11.)

Two Exceptions to the "Eligible Program" Requirement

There are two cases when a student does not have to be enrolled as a regular student in an eligible program to receive a FFEL or Direct Loan. There is one case when a student does not have to be enrolled as a regular student in an eligible program to receive a Perkins Loan or FWS.

Preparatory coursework

A student who is not enrolled in a degree or certificate program is eligible for FFELs or Direct Loans for a period of up to one year if the student is taking coursework necessary for his or her enrollment in an eligible program. The coursework must be part of an eligible program otherwise offered by the school, although the student does not have to be enrolled in the eligible program. For instance, a student who has already received a bachelor's degree might need an additional 12 hours of specialized undergraduate coursework in order to enroll in a graduate program. If a student is enrolled at least half time in these prerequisite courses and if the courses are part of an eligible program, the student is eligible for loans for one consecutive 12-month period beginning on the first day of the loan period for which the student is enrolled.

If the 12-month period of preparatory coursework represents more than one academic year, the student may receive multiple loans. The loan limit for a first-year undergraduate applies, with certain exceptions as of January 16, 1997. A student with a bachelor's degree taking preparatory coursework to enter a graduate or professional program can borrow up to the annual loan limit established for fifth-year undergraduates. Graduate loan limits apply only when the student has been admitted as a degree candidate in a graduate program and has begun to take enough courses to qualify as at least half time on the graduate level.

Teacher certification

Another exception to the requirement that the student be enrolled as a regular student in an eligible program involves the FFEL, the Direct Loan, the Perkins Loan, and the FWS programs. This exception allows eligibility for a student who is enrolled at least half time in a required teacher-certification program, even though the teacher-certification program does not lead to a degree or certificate awarded by the school (for example, the certificate may instead be granted by the state). The program must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach or in the state where the student is completing the program. This exception is not

intended to cover optional courses that the student elects to take for professional recognition or advancement. Nor does the exception cover courses that the school recommends but that are not required for certification or recertification. The school should document that the courses are required by the state for teacher certification. For purposes of the FFEL and Direct Loan programs, a student who is considered eligible under this exception is considered a fifth-year undergraduate; therefore, the loan limit is $5,500, plus an additional $5,000 in unsubsidized loans if the student is classified as independent.

HIGH SCHOOL DIPLOMA; ABILITY TO BENEFIT

To receive SFA funds, a student must be qualified to study at the postsecondary level. For SFA purposes, a student with a high school diploma or its recognized equivalent is considered qualified. Students who pass approved ability-to-benefit (ATB) tests may also be qualified (see the discussion that follows).

Equivalents to the high school diploma

SFA regulations identify several recognized equivalents to the high school diploma:

- ◊ General Education Development (GED) certificates and state certificates;
- ◊ For a student enrolling in an educational program that is at least at the associate-degree level, documentation that the student excelled academically in high school and has met the school's admissions standards;
- ◊ A certificate of completion of a home-study program if the program is recognized by the student's home state;
- ◊ A student's postsecondary school academic transcript if the student has completed a program of at least two years in length that is acceptable for full credit toward a bachelor's degree.

Ability to benefit

An SFA applicant without a high school diploma or its recognized equivalent can be eligible for SFA funds if he or she 1) passes an independently administered test used for determining the student's ability to benefit from postsecondary education and approved by the Department or 2) enrolls in a school that participates in a process that has been both prescribed by the state in which the school is located and approved by the Department.[1]

[1]In the case of a school with branch campuses, the process must have been approved by the state in which the branch the student is attending is located.

Approved tests

On December 1, 1995, the Secretary published regulations for approving and administering ATB tests. The regulations took effect July 1, 1996. On October 25, 1996, the Department published the first list of approved tests under these rules in a *Federal Register* notice. See pages 2-12 and 2-13 for a list of approved tests. To be sure that you have a comprehensive up-to-date list, you may call Customer Support at 1-800-433-7327 for information on tests approved after this publication went to print. If it chooses to do so, a school may use more than one of the tests on the list to determine whether an ATB student is eligible to receive SFA program funds.

34 CFR 668.148

There are some areas in which there are no "new" approved tests; in these cases schools can still use the old approved tests until 60 days after the Department publishes the name and score of the new test. Specifically, the regulations contain additional provisions for approving tests for students whose native language is not English and who are not fluent in English and for students who have disabilities; no such tests have been approved. In such cases schools should make ATB eligibility determinations based on guidelines stated in the December, 30, 1992 *Federal Register* and by using tests approved as of June 30, 1996. The Department is currently reviewing the eight tests listed in the October 25 notice to determine if they can also be used for students with disabilities. If the Department approves the tests for this purpose, a notice will be published in the *Federal Register*. When published, this notice will also be available on the SFA BBS.

Prior determination—34 CFR 668.155(b)

If a school properly determined that a student had the ability to benefit under a test approved as of June 30, 1996 (see the 1996-97 *Federal Student Financial Aid Handbook* for a comprehensive list), the school does not have to redetermine the student's eligibility under a newly approved test.

Test approval

The regulations address both approval and administrative procedures for test publishers. The Department evaluates the submitted tests according to the regulatory guidelines. The Department will also review all state tests or assessments that are submitted for approval. If a state test meets the criteria for approval, both public and private schools in that state may use the test. Note that no such tests have yet been approved.

To apply for approval, the test publisher must submit its test and certain documentation specified in the regulations. After receiving an application, the Department will notify the test publisher of approval or disapproval. If a test is approved, the Department will then publish in the *Federal Register* the name of the test and the test publisher and the passing score required for students taking the test.

The passing score will be one full standard deviation below the mean for students who earned high school diplomas and who took the test within three years of the date on which the test is submitted to the Department. The minimum passing score for each approved test was published in the *Federal Register* on October 25, 1996 and March 7, 1997.

Testing procedures—34 CFR 668.151

The regulations also specify testing procedures school must follow. The school should make arrangements with one or more parties to administer the approved tests to students. The regulations require that the test administrator be certified by the test publisher. The school should contact the test publisher to locate a certified test administrator. Certified administrators may come from various occupations. They may include but are not limited to people in these fields:

- ◊ high school guidance counselors;
- ◊ qualified professional educators;
- ◊ regional and area Armed Forces Commands staff who are experts in education, training, and human resource development;
- ◊ test and measurement experts; and
- ◊ human resource development professionals.

Independent administration

An approved test must be independently administered. To be independently administered, the test must be given by an individual or by an organization with no current or prior financial or ownership interest in the school, its affiliates, or its parent corporation other than the interest generated through its agreement to administer the approved test. The test may not be given by a current or former employee, consultant, or student of the school, an owner or member of the board of directors, a person with a financial interest in the school, or a relative of any of these individuals. In addition, the test administrator cannot score the test, but must submit it to the publisher for scoring.

Administration by assessment center

A test is also considered to be independently administered if it is given at an assessment center. An assessment center is located at an eligible degree-granting school or public vocational institution, and is responsible for evaluating students for multiple purposes, such as course placement. It must not have administering ATB tests as its primary purpose. The assessment center must be staffed by professionally trained personnel and be independent of the admissions and financial aid process. An assessment center may score students' tests, unless its agreement with the test publisher prohibits it.

Tests Approved by the Department

Following is a listing of the eight approved ability-to-benefit (ATB) tests and the publishers of these tests. The list is based on information originally printed in the *Federal Register* on October 25, 1996. Call ED's Customer Service number at 1-800-433-7327 for information on tests approved after this publication went to print.

◊ ASSET Program: Basic Skills Tests (Reading, Writing, and Numerical Skills): Forms B2 or C2. Approved passing scores: Reading (34), Writing (34) , Numerical Skills (33). Used primarily by community/technical colleges. Paper/pencil testing. Hand score or computer score.

Publisher: American College Testing (ACT)
Placement Assessment Programs
2201 North Dodge Street
P.O. Box 168
Iowa City, Iowa 52243

Phone: 319-337-1054

◊ Career Programs Assessment (CPAt) Basic Skills Subtests (Language Usage, Reading, and Numerical Skills): Forms A, B, or C. Approved passing scores: Language Usage (43), Reading (44), Numerical Skills (42). Used primarily by proprietary career schools and colleges. Paper/pencil testing. Hand score only.

(Publisher: American College Testing [ACT]. See information in prior listing.)

◊ COMPASS Subtests: Prealgebra/Numerical Skills Placement, Reading Placement, and Writing Placement. Approved passing scores: Prealgebra/Numerical Skills Placement (21), Reading Placement (60), and Writing Placement (31). Used primarily by community/technical colleges and 4-year colleges and universities. Computer testing only/computer scoring only.

(Publisher: American College Testing [ACT]. See contact information above.)

◊ Computerized Placement Tests (CPTs)/ACCUPLACER (Reading Comprehension, Sentence Skills, and Arithmetic). Approved passing scores: Reading Comprehension (52), Sentence Skills (60), and Arithmetic (36).

Publisher: The College Board
45 Columbus Avenue
New York, NY 10023-6992

Phone: 212-713-8000

Tests Approved by the Department

◊ Descriptive Tests: Descriptive Tests of Language Skills (DTLS) [Reading Comprehension; Sentence Structure or Conventions of Written English]: Forms M-K-3KDT and M-K-3LDT; and Descriptive Tests of Mathematical Skills (DTMS) [Arithmetic]: Forms M-K-3KDT and M-K-3LDT. Reading Comprehension (108); Sentence Structure (9) or Conventions of Written English (309), and Arithmetic (506).

(Publisher: The College Board: See prior listing.)

◊ Test of Adult Basic Education (TABE) [Reading Total, Total Mathematics, Total Language]: Forms 5 and 6, Level A, Survey Version and Complete Battery Version. Approved passing scores: Reading Total (768), Total Mathematics (783), Total Language (714).

Publisher: CTB/McGraw Hill
20 Ryan Ranch Road
Monterey, CA 93940-5703

Phone: 408-393-7197

◊ Test of Adult Basic Education (TABE) [Reading, Total Mathematics, Language]: Forms 7 and 8, Level A, Survey Version and Complete Battery Version. Approved passing scores: Reading (559), Total Mathematics (562), Language (545).

(Publisher: CTB/McGraw Hill. See contact information above.)

◊ Wonderlic Basic Skills Test (WBST) [Verbal Forms VS-1 & VS-2; Quantitative Forms QS-1 & QS-2]. Approved passing scores: Verbal (200), Quantitative (210).

Publisher: Wonderlic Personnel Test
1509 N. Milwaukee Avenue
Libertyville, IL 60048-1380

Phone: 800-323-3742

Test selection

When selecting a test, the school should consider the following issues:

Relevance of test to the educational program. Are the skills and abilities assessed important for the successful completion of the student's planned program of study?

Level of difficulty of the test. Is the overall level of difficulty appropriate to the population of prospective students being assessed and to the coursework required in the program?

Native language. If the student's program will be taught in a language other than English, the student should be permitted to take the test in the language of the program. (See the discussion for students with special needs that follows.)

Tests for students with physical disabilities. Students with physical disabilities should receive appropriate assistance in test taking, in accordance with the guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.

Students with special needs— 34 CFR 668.153

The regulations take into account the special needs of students with documented disabilities and students who are not native speakers of English. Under certain circumstances, special testing procedures or instruments may be used for testing such individuals. For students whose native language is not English, the school must use one of the approved tests listed on the previous pages if a student enrolls in a program taught in English without an English as a Second Language (ESL) component or if the student does not enroll in an offered ESL component. Otherwise, the school may use a test approved in the student's native language or an ESL test, as appropriate, once such a test is approved. As noted previously, no tests for those purposes or for students with disabilities has yet been approved. Therefore, schools may continue to use the previous tests and procedures until 60 days after the Department publishes the name and score of new approved tests in the *Federal Register*. As noted on page 2-10, at the time this Handbook went to print the Department was considering approving tests for students with disabilities.

Proper administration

All tests must be administered in accordance with the procedures specified by the test publisher. Such procedures address, but are not limited to, time limits for completion, rules on how often and within what time frame the test may be readministered, whether the test may be given verbally, and so on. If a test comprises multiple parts, all **relevant** parts, as listed in the approval notice, must be administered in order for the test to

be valid. The approval notice published by the Department will show either the approved score for each subpart or an approved composite score.

Duration of test results

A student who has taken an approved, independently administered test within the last 12 months may submit the official test-score notification to the school to demonstrate his or her ability to benefit. If the school accepts the results of a previously administered test, that school must obtain documentation showing that the test and its administration meet federal requirements. If a student withdraws from school before receiving SFA funds and then re-enrolls more than 12 months after taking the test, he or she must be retested, unless he or she now has a high school diploma or equivalent.

Retroactive eligibility

A student may be eligible for SFA funds for a period beginning before he or she passed an ATB test. If the student becomes eligible by passing an approved ATB test after he or she has begun attendance, the student is eligible for Pell Grant and campus-based funds beginning with the payment period (usually an academic term) during which the student passed the ATB test. The student would also be eligible for a Direct Loan or FFEL for the entire period of enrollment (usually an academic year) in which the student passed the ATB test.

Access to GED programs

In addition to assuring that students who do not have high school diplomas (or recognized equivalents) successfully pass ability-to-benefit tests, the school must make a GED-preparatory program available to such students. Note that the requirement to make the GED programs available is stated in the school's Program Participation Agreement. See Chapter 3, Section 1.

REMEDIAL COURSEWORK FOR POSTSECONDARY STUDY

Remedial coursework prepares a student for study at the postsecondary level. If a student is enrolled solely in a remedial program, the student is not considered to be in an eligible program and thus is not eligible for SFA funds. Additionally, if a student's acceptance into the eligible program is contingent upon the completion of the remedial work, the student cannot be considered to be enrolled in the eligible program until the remedial work is completed. The one exception, for the FFEL and Direct Loan programs only, is enrollment in preparatory coursework, which may be remedial in nature (see page 2-8).

A student may receive SFA funds for a limited amount of noncredit or reduced-credit remedial coursework that is included as part of a regular program. The remedial coursework must be at least at the high-school level, as determined by the state legal authority, the school's accrediting

agency, or the state agency recognized for approving public postsecondary vocational education. A school may not take into account more than one academic year's worth (30 semester or trimester hours, 45 quarter credit hours, or 900 clock hours) of remedial coursework for a student. ESL courses do not count against these limits.

Limitation on hours

Enrollment status

Determining the enrollment status for students taking remedial coursework may be problematic because schools either may give no credit or may give reduced credit for such coursework. However, because there is a credit or clock-hour limit on the amount of remedial coursework for which the student can be paid, the school must be able determine how many credit or clock-hours of such coursework the student is enrolled in. In addition, the student's enrollment status affects the amount he or she can receive under the Pell Grant Program and whether he or she is eligible for loans under the FFEL and Direct Loan programs.

To include noncredit remedial hours in the student's enrollment status for financial aid payments, a school must determine the number of hours of study that the remedial course requires (both classroom and homework hours) and must compare that number with the hours required for similar nonremedial courses. For determining a student's enrollment status, the school should use the same number of credits for the remedial course as for a nonremedial course. (Clock-hour schools should use the number of classroom hours attended in the remedial program.)

To determine a student's enrollment status, a school should add the credits or clock hours assigned to the noncredit course to the credits or clock hours of regular coursework. In addition, the school should include in the student's cost of attendance tuition paid for noncredit remedial work that is counted in the student's enrollment status.

High school coursework excluded

A school cannot count noncredit remedial hours when determining enrollment status or cost of attendance if the noncredit remedial course is part of a program that leads to a high school diploma or its recognized equivalent. A student is never permitted to receive funds for GED training or for high school, even if the GED or high school training is offered at postsecondary schools. These noncredit remedial hours must not be counted, even if the course is required for completing the postsecondary program. A postsecondary student is **not** permitted to receive SFA funds while he or she is simultaneously enrolled in an elementary or secondary school. For example, a high school student who is taking vocational training in the afternoon or weekends is not eligible for SFA funds even if his or her entire program at the postsecondary school is postsecondary in nature. If the simultaneous enrollment ends during a payment period or period of enrollment, the student can receive SFA funds for the entire payment period or period of enrollment.

Half-time enrollment status is not a minimum requirement for receiving Pell Grants and campus-based funds. Enrollment status may affect how much a student receives under Pell. (See Chapter 4 for information on how enrollment status affects a student's Pell Grant award.)

Minimum enrollment

The FFEL and Direct Loan programs **do** require a student to be enrolled at least half time to receive aid. A half-time student must be taking at least half of the course load of a full-time student. (See Chapter 10 for more information on the FFEL Program, and Chapter 11 for more information on Direct Loans.)

Definition of full time—34 CFR 668.2

As specified in the regulations, schools define the full-time workload, subject to certain minimums. This measurement may differ from the definition used for other purposes at the school, such as the definition used by the registrar's office. The school's definition of a full-time workload for a program must be used for all students enrolled in that program and must be the same definition for all SFA-related purposes, including loan deferments.

A full-time student is a student who is carrying a full-time academic workload. The school may include any combination of courses, work, research, or special studies in its definition of workload. For undergraduate students—but not for graduate students—the school must define full-time status to meet at least the following minimums:

- 12 semester hours or 12 quarter hours per academic term in an educational program using a semester, trimester, or quarter system;
- 24 semester hours or 36 quarter hours per academic year for an educational program using credit hours but not using a semester, trimester, or quarter system, or the prorated equivalent for a program of less than one academic year;
- 24 clock hours per week for an educational program using clock hours;

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- for a student who is taking a combination of courses offered in semester credit, quarter credit, and/or clock hours, prorated percentages of the minimums for credit- and clock-hour measurements equal to at least one;

Example

The student is at a school that uses academic terms. For the first term, the student is taking 6 semester hours and 3 quarter hours and is also taking 9 clock hours per week. To determine if the student is full time, divide each type of hour by the minimum requirement for full time and then add the fractions:

6/12 + 3/12 + 9/24 = .5 + .25 + .375 = 1.125

Because the result is greater than or equal to one, this student would be considered full time.

- a series of courses or seminars equaling 12 semester or quarter hours over a maximum of 18 weeks; or

- the work portion of a cooperative education program in which the amount of work performed is equivalent to the academic workload of a full-time student.

A student taking only correspondence courses is never considered to be enrolled more than half time.

Enrollment status and deferment

Note that a student's enrollment status also is important for deferment purposes. A borrower is eligible for a deferment as a half-time student if 1) he or she is a Direct Loan borrower or 2) if he or she is a FFEL borrower who received loans on or after July 1, 1993 and had no outstanding balance on a FFEL borrowed before July 1, 1993. Certain other FFEL borrowers may need to be enrolled full time to receive an in-school deferment (see Chapter 10).

SATISFACTORY PROGRESS

Every school participating in the SFA Programs must monitor its SFA recipients to ensure that they are meeting satisfactory progress standards. Each school must develop reasonable standards for measuring academic progress, which must contain elements specified in the regulations.

A school's satisfactory progress policy for students receiving SFA funds must be at least as strict as the policy used for students who do not receive SFA funds. The policy must be applied consistently to all SFA recipients within identifiable categories of students (such as full-time or part-time,

graduate, or undergraduate students). Note that the school's satisfactory progress policy must include both a qualitative measure (such as the use of cumulative grade point average) and a quantitative measure (such as a maximum time frame for completion) of the student's progress.

Qualitative and quantitative measurements

Although a school may establish its own satisfactory progress standards, these standards must at least meet the minimums required by law and regulations. For the qualitative standard, the law specifies that by the end of the second academic year (measured as a period of time, not by the student's grade level), the student must, in general, 1) have a C average or its equivalent, or 2) have an academic standing consistent with the requirement for graduation from the program. If a school does not use letter grades, a school's satisfactory progress policy should define "equivalent of a C average." If a school determines that a student has maintained satisfactory progress standards even though his or her average falls below a C average, the school must be able to document that the student's average is consistent with the academic standards required for graduation.

Minimum qualitative standards

Rather than using a single fixed standard throughout the program, a school may use a graduated grade point requirement. For instance, a school may set a minimum grade point average (GPA) of 1.75 (on a scale of 0.0 to 4.0) at the end of the second academic year in a four-year degree program. The school may also require that a student earn at least a 2.0 average in order to graduate. If school policy permits progression toward the 2.0 graduation requirement, the school may permit a lower standard at the end of the second academic year.

Graduated qualitative standards

The GPA is not by itself a sufficient measure of progress. Consider this situation: A student initially enrolls for 12 credits per semester but then withdraws from two classes that he or she was failing. Although the student may have an A average in the two classes from which he or she did not withdraw, that student may not be progressing toward graduation at an acceptable pace. To accurately measure a student's progress in a program, the satisfactory progress policy must also include a quantitative measure to determine the number or percentage of courses, credit hours, or clock hours completed.

To quantify academic progress, a school must set a maximum time frame in which a student is expected to finish a program. For an undergraduate program, the maximum time frame may not exceed 150% of the published length of the program measured in academic years, academic terms, credit hours attempted, or clock hours completed, as appropriate. For instance, if the published length of an academic program is 120 credit hours, the maximum time frame established by the school must not exceed 180 attempted credit hours (that is, 120 x 1.5).

Minimum quantitative standards—34 CFR 668.16(e)

Increments (evaluation periods)

To ensure that a student is making sufficient progress throughout the course of study, the school must divide the program into **equal** evaluation periods called increments. An increment may not be longer than half the program or one academic year, whichever is less.

In other words, for a school's 700-hour program, an increment must not exceed 350 hours. For a school's 2,000-hour program, an increment must not exceed 900 hours if the school uses a 900-hour academic year definition. Increments are also expected to coincide with payment periods.

Once a school defines the length of each increment, the school must compare the number of hours the student attempted with the number of hours the student successfully completed. This calculation enables the school to determine whether the student is progressing at a rate that will allow him or her to finish the program within the maximum time frame.

Quantitative progress example

A school that offers a 4-year program and determines the maximum time frame based on academic years could allow students 6 academic years to complete the program. Edison College decides to allow students a maximum time frame of 5 academic years of work for its 4-year microbiology program.

Two students, Andrew and Malia, are enrolled in this 4-year microbiology program. The program requires 120 semester credits for graduation. Under the school's policy, the maximum time frame for completing the program is 150 credit hours (5 academic years of work). Both students enroll in 5 classes each semester (15 credits per semester). After one year, Andrew has earned 27 credits and Malia has earned 30 credits. After two years, Andrew has earned 45 credits and Malia has earned 51 credits. Are Andrew and Malia making satisfactory progress in their course of study?

Solution

Because the school has set a maximum time frame of 150 semester hours to complete a 120-semester-hour program, a student must successfully complete 80% of the work attempted to be making satisfactory progress (120 ÷ 150 = .8).

Both Andrew and Malia attempted 30 credit hours in the first year.

80% x 30 credit hours attempted = 24 credit hours

Because both students successfully completed at least 24 credit hours in their first year, they both were making satisfactory progress when entering their second year of study.

After their second year of study, in order to be considered to be making satisfactory progress, they must have successfully completed 80% of 60 credit hours.

80% x 60 credit hours attempted = 48 credit hours

Therefore, Malia was making satisfactory progress because she had completed 51 credits, but Andrew was not because he had earned only 45 credits.

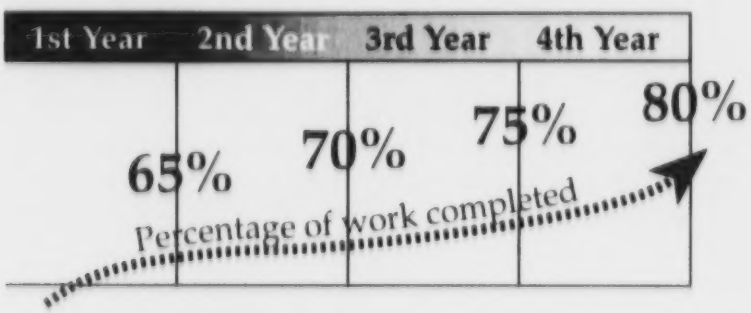
In the preceding example, the school established a minimum percentage of hours the student must complete each academic year. By setting a percentage rather than a fixed number of hours or credits that must be completed each academic year, the school can easily adjust for changes in a student's enrollment status from one period to the next. For instance, if in the second year, Andrew enrolled for only 15 credit hours, his progress would be measured as follows:

80% x 45 credits attempted (30 in first year and 15 in second) = 36 credits

If Andrew successfully completed 9 of the 15 credits attempted in the second year, he would be considered to be making satisfactory progress (27 completed in the first year + 9 in the second equals 36 credits, the minimum that must be completed to achieve an 80% completion ratio).

Graduated quantitative standards

A school may use a graduated completion percentage for each year of enrollment. For instance, a school might choose to apply a more lenient completion standard in the student's first academic year but may gradually increase the completion standard during the course of study to ensure that the student completes program requirements within the maximum time frame.



Credit for all hours attempted

At some schools (mainly clock-hour schools), a student is given credit for every hour attended, so that the hours attempted equal the hours earned. In such cases, the quantitative standard must be based on calendar time (in weeks or months). For instance, if a school offers a 900-clock-hour program that normally takes 8 months to complete, the school might set a maximum time frame of 12 months for completing the program. Therefore, a student would have to complete the first 450 hours of the program within 6 months to establish that he or she is meeting satisfactory progress standards.

Additional elements

A school's satisfactory progress policy must explain how withdrawals, grades of "incomplete," courses that are repeated, and noncredit remedial coursework affect the academic progress determination. A school must also establish procedures that enable the student to appeal a determination that finds him or her **not** to be making satisfactory

progress. For students ultimately judged not to be making satisfactory progress, the school must establish specific procedures that enable such students to once again meet satisfactory progress standards.

Standards must be cumulative

The quantitative and qualitative standards used to judge academic progress must be cumulative and must include all periods of the student's enrollment. Even periods in which the student did not receive SFA funds must be counted. Transfer credit hours must be counted as well, so that transfer students are not given more time than other students in meeting satisfactory progress standards. A school cannot set a maximum time frame based on hours attempted and then have a policy to routinely exclude certain hours attempted, such as hours taken during a summer session, from its determinations of satisfactory academic progress.

Bear in mind that as a rule, the Department does not regulate schools' satisfactory progress standards. Other than the minimum qualitative standard set by law and the minimum quantitative standard provided in regulations, the Department only stipulates policy components—not academic standards.

Loss of eligibility

If a student does not meet the school's standards of satisfactory progress, he or she is not allowed to receive further aid from the SFA Programs unless the school uses its discretion to set aside the requirement because of mitigating circumstances. The statute specifies cases in which the school might choose to set aside the standards: for example, if a student becomes very ill, if a student is severely injured, or if a student's relative dies. Schools that permit waivers of satisfactory progress standards must establish written procedures explaining when a special circumstance merits a waiver.

Payment after reinstatement

If a student loses SFA eligibility because he or she is determined not to be making satisfactory progress, that student will regain eligibility when the school determines that he or she is again meeting its satisfactory progress standards. A student may be paid Pell Grant and campus-based funds for the payment period in which he or she regains satisfactory progress but cannot be paid for any payment period in which the standards were not met. (The school must document each case.) For FFELs and Direct Loans, a student who does not meet satisfactory academic progress standards at the beginning of a period of enrollment but who meets the standards later in that period is eligible for the entire period of enrollment (usually an academic year) in which he or she met the satisfactory academic progress standards—unless school policy provides for reinstatement of eligibility at a later point.

A person generally is not eligible for SFA funds if he or she is in default on an SFA loan or must repay an SFA grant. This ineligibility rule also applies to a parent seeking a PLUS Loan (through the FFEL or the Direct Loan program). For a parent to receive a PLUS Loan, neither the parent nor the student may be in default or owe an overpayment through the SFA Programs. (The General Provisions regulations contain several exceptions to these blanket rules on defaults and overpayments, as noted in the discussion below.)

Liens

Additionally, a student's property must not be subject to a judgment lien for a debt owed to the United States. For example, if the Internal Revenue Service (IRS) had placed a lien on a student's property, the failure to pay this debt or to make satisfactory arrangements for repayment would render the student ineligible for SFA funds. A parent cannot receive a PLUS Loan if either the student or the parent has property subject to a judgment lien for a debt owed to the United States.

Any student applying for SFA funds must certify that he or she is not in default on any SFA loan and that he or she does not owe an overpayment on any SFA grant or loan, or that he or she has made satisfactory arrangements to repay the overpayment or default. The "Certification Statement on Overpayments and Defaults" is printed on the FAFSA.

NSLDS database

The National Student Loan Data System (NSLDS) contains student financial aid information from guaranty agencies, lenders, schools, and the Department. To help schools determine if a student is in default or owes a repayment, the CPS matches application with the NSLDS database. (For more information on the NSLDS match, see Section 2.) Remember that a school is responsible for reconciling all information it receives about a student before disbursing aid. Therefore, schools are required to resolve any conflicts between the NSLDS information and information received from the student. For example, if the NSLDS indicates that a student is not in default but the school has documentation indicating that the student is in default, the school must resolve this conflict before disbursing federal student aid

Schools must resolve discrepancies

Loan Defaults

Repaid in full

After a student who is in default on an SFA loan repays the loan in full, that student may receive SFA funds as long as he or she meets all other necessary eligibility requirements. SFA loans include Federal Perkins Loans (including NDSL), FISLs, Federal Stafford Loans, Federal Direct Loans, Federal SLS,[2] Income Contingent Loans (ICL), Federal

[2]Federal SLS loans include Auxiliary Loans to Assist Students and PLUS Loans to students, former names for SLS loans.

Consolidation Loans, Federal Direct Consolidation Loans, Federal PLUS Loans and Federal Direct PLUS Loans. If the student borrower and the loan holder agree on a compromised amount for settling a loan and the student repays the amount agreed upon, that student may receive SFA funds.

The student regains eligibility whether repayment was completed voluntarily or otherwise (that is, through IRS offset or wage garnishment). Please note that if a student has repaid his or her defaulted loan in full, the school may still consider the prior default to be evidence of a student's unwillingness to repay loans and may therefore deny him or her future Perkins Loans.

Satisfactory repayment arrangements

A student in default on an SFA loan may continue to receive SFA funds if he or she has made satisfactory repayment arrangements with the loan holder. The student must make arrangements that are satisfactory to the loan holder and that are in accordance with the individual SFA loan program regulations. After the student makes six consecutive, full, voluntary payments on time, he or she regains eligibility for SFA funds.

Before a school may pay the student, it must have documentation that the student has made satisfactory repayment arrangements. For example, the lender may update the code for the loan in NSLDS to DX once six payments have been made; the school could then use the NSLDS information as confirmation of the repayment arrangement. The school may also use a written statement from the loan holder indicating that the student has made satisfactory repayment arrangements as documentation of the arrangement.

A student who regains eligibility after making six consecutive payments on a defaulted SFA loan is eligible for a new FFEL or Direct Loan for the entire enrollment period in which eligibility was regained (which may be a full academic year or an academic term). Note that the enrollment period cannot include periods that are part of an academic year previous to the one in which the student regained eligibility. If an enrollment period begins in one academic year and ends in the following academic year and if the borrower regains eligibility during the second academic year, the school may award a loan only for that portion of the enrollment period that is part of the second academic year.

Rehabilitation

Although a student regains eligibility for all SFA funds after making six payments, the loan is still in default. After further payments, the loan may be rehabilitated (that is, it will no longer be in default), and the student will be eligible for all the normal loan benefits, such as deferments. A student with a FFEL cannot have his or her loan rehabilitated (assuming the lender agrees to rehabilitate) until 12 consecutive, full, voluntary payments have been made on time. (See Chapter 10.) A defaulted Direct

Loan will automatically be rehabilitated after 12 consecutive, full, voluntary payments have been made on time. (See Chapter 11.) A Perkins Loan or an NDSL will be rehabilitated after the borrower executes a new written repayment agreement and makes one payment for each month for 12 consecutive months.

If a student has paid a defaulted loan in full but receives an output document with a comment indicating that he or she is ineligible because of the default, the student must provide the school with documentation proving that the loan has been paid in full.

Overpayments

If a student receives a Pell Grant overpayment, he or she is permitted to continue to receive SFA funds if the overpayment can be eliminated by reducing the subsequent Pell Grant payments for the same award year. A student who receives an overpayment through the FSEOG, SSIG, or Perkins Loan program may continue to receive SFA funds if the overpayment can be eliminated by adjusting subsequent financial aid payments (other than Pell Grants) within the same award year. If the overpayment was the result of the school's error and the school cannot eliminate the overpayment in the same award year, the school must repay the overpayment; the student is then not considered to owe an overpayment and may receive SFA funds. If a student's error caused the overpayment, the student is responsible for repaying the overpayment. The student cannot receive additional SFA funds until he or she repays the overpayment in full or makes satisfactory arrangements to repay the overpayment.

School error

Student error

If the student is responsible for repaying the overpayment, the school may, if it chooses, make the repayment for the student (that is, the school can return to the program accounts the amount overpaid to the student). When a school makes such a repayment on the student's behalf, the student is no longer considered to owe an overpayment. Instead, the student owes an institutional debt which the school can collect according to its own procedures. Because the student does not owe an overpayment, he or she is eligible for SFA funds as long as all other eligibility criteria are met.

Optional school repayment

The school must make attempts to collect from its students overpayments that have not been repaid. If a school is unable to recover from the student a Pell Grant or FSEOG overpayment for which the student is liable, the school must report the student's overpayment to the Department. (See Chapter 4, Section 6 and Chapter 5, Section 2 for more information.) After this information is reported, the student's future output documents will be flagged for resolution when his or her FAFSA is received by the CPS. Pell Grant and FSEOG overpayments reported to the Department's Debt

School must attempt to collect

Collection Service (DCS) are incorporated into the NSLDS. The NSLDS Financial Aid History will indicate that a student has a reported overpayment. In addition, the student's output document will have a comment stating that the student is ineligible for SFA funds until the overpayment is repaid, and a "C"—indicating that the school must resolve the issue before payment is made—will be printed next to the EFC reported on the output document.

Currently, NSLDS does not have information on overpayments not referred to DCS. The Department plans to modify NSLDS by January 1998 to allow schools to report these overpayments through NSLDS. The Department will issue further guidance on this topic at a later date, in the form of a "Dear Colleague" Letter. When issued, this up-to-date information will also be available on the SFA BBS.

BANKRUPTCY

Reaffirmation not required

A student with an SFA loan discharged in bankruptcy is eligible for SFA grants, work-study, and loans. A borrower does not have to reaffirm a loan discharged in bankruptcy in order to be eligible. The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on a bankruptcy discharge.

A borrower who listed a dischargeable SFA debt in a bankruptcy filing is also eligible for further federal student aid before the debt is actually discharged. The borrower must provide documentation to the school from the holder of the debt stating that the debt is dischargeable.

Loans stayed in bankruptcy

In addition, if a student includes a non-defaulted SFA loan in a bankruptcy claim, so that collection on the loan is stayed, the student remains eligible for SFA funds as long as he or she has no loans in default (including the stayed loan) and as long as all other eligibility requirements are met. For more information on loan status and eligibility, see the chart on the next page.

ELIGIBILITY AFTER TOTAL AND PERMANENT DISABILITY CANCELLATION

A borrower whose loan is canceled because of total and permanent disability may later receive any type of SFA funds if he or she meets all other eligibility requirements. If such a borrower wishes to take out an SFA loan, he or she must obtain certification from a legally licensed physician stating that the student's condition has improved and that the student 1) has the ability to engage in substantial gainful activity or 2) can attend school. Then the student must sign a statement indicating that he or she is aware that his or her new SFA loan cannot later be canceled on

Effect of Loan Status on Student Aid Eligibility

Loan Status	NSLDS Code	Eligible for SFA Funds*
In school, grace period,	DA-Deferred FB-Forbearance ID-In school or grace period RP-In repayment	Yes
Paid	DP-Default, then paid in full PC-Paid in full through consolidation PF-Paid in full	Yes For consolidation, it does not matter what type of consolidation loan the borrower received, nor whether loan was in default before consolidation.
Lost guarantee	UI-Uninsured, Unreinsured	Yes It does not matter if the loan was in default.
Canceled or discharged	BC-No default, bankruptcy discharge CA-Canceled DF-Default, false certification discharge DG-Default, false certification (ability to benefit) discharge DI-Disability DJ-Default, discharged by judicial ruling DK-Default, bankruptcy discharge DN-Default, closed school discharge DS-Default, disability cancellation EA-False certification (ability to benefit) discharge EC-Closed school discharge EF-Loan discharged for fraudulent disbursement EJ-Court ordered write-off OD-Default, bankruptcy discharge	Yes For a borrower who had a disability cancellation to receive new loans, the borrower must have a doctor's certification that his or her condition has improved and sign a statement indicating that he or she is aware that the new loan cannot be canceled on the basis of any present impairment unless the condition deteriorates.
No default, bankruptcy filing	BK-No prior default, active bankruptcy claim	Yes Loan was not in default and has not been discharged.
Default	DL-Defaulted, in litigation DT-Defaulted, collection terminated DU-Defaulted, unresolved	No
Default, bankruptcy filing	DB-Defaulted, active bankruptcy claim DO-Defaulted, active bankruptcy claim	No, unless debtor can show that loan is dischargeable.
Default, compromise	DC-Defaulted, compromised	Yes Compromise is recognized as payment in full.
Default, written-off	DW-Defaulted, write-off	No, unless debtor reaffirms loan and makes satisfactory repayment arrangements or repays loan in full.
Default, satisfactory repayment arrangement	DX-Defaulted, satisfactory arrangements, and six consecutive payments	Yes, if borrower continues to comply with repayment plan or is granted forbearance.

*Federal Perkins Loan regulations allow the financial aid administrator to deny eligibility for additional loans if he or she has evidence that the applicant is unwilling to repay the loan.

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the basis of any present impairment unless that condition substantially deteriorates to the extent that the definition of total and permanent disability is again met. The borrower is not required to obtain a physician's certification or to sign the aforementioned statement if the borrower is applying for an SFA grant or work-study only.

VALID SOCIAL SECURITY NUMBERS

SSNs required

To be eligible to receive SFA funds, each student must provide a valid Social Security Number (SSN). The Social Security Administration (SSA) and the CPS work together to conduct a match that verifies that the given student's SSN is correct and that the SSN corresponds to the given student's name and birth date.

Successful match

As is the case for the SSA citizenship match, no comment is provided on the output document when the SSN match is successful. A match flag of "4" will be provided in the FAA Information Section for a successful match. If the school discovers that a matched SSN is incorrect or discovers conflicting information about the student's SSN, the school must resolve the conflict before disbursing SFA funds to the student.

Discrepancy on date of birth

If a student's name and SSN match but the SSA shows a different date of birth, a comment stating that the date of birth is inconsistent will appear on the student's output document (Comment 60). The school should resolve the discrepancy with the student. In such a case, no further action is **required** through the CPS. However, if the student's reported date of birth is incorrect, the student or school can submit a correction. Note that the student's application will be rejected if the year of birth is mistakenly reported to be the current year (or a later year). In this case, the student **must** submit a correction before he or she can receive aid.

Discrepancy on name

If the SSN is in the database but there is a discrepancy regarding the student's name, the student will receive a comment on the output document telling the student either to correct the appropriate items or to contact the SSA to resolve the problem (Comment 61). This situation is most likely to occur when a student has used a nickname on the application or when a student has failed to inform the SSA of a name change (from marriage, for instance). The school may disburse funds if the student provides documentation explaining the discrepancy, and shows that the submitted SSN is correct; the application does not need to be resubmitted to the CPS. However, the student should submit a correction to the CPS if the name he or she reported is not correct. The student **must** submit a correction if the reported SSN is not correct. If both the reported name and SSN are correct, the student may wish to contact SSA so it can correct its records. If the student used a nickname or a changed name, the NSLDS match might also make only a partial match; see page 2-40 for more information on resolving a partial NSLDS match.

SSN invalid

If the SSN does not match, the student's application will be rejected. The student will receive a comment that instructs the student to correct his or her SSN or contact SSA if he or she believes the SSN reported is correct (Comment 24). The student will only receive this comment if the SSN he or she reported does not exist in the SSA database. If the SSN is correct, the student must follow up with a local or regional SSA office to update the SSA database; the student must report his or her correct number to the SSA and provide documentation verifying the correct number. The student must contact an SSA office directly. The SSA database is updated daily with information from local and regional offices. Once the SSA database is updated, the student may submit the SSN again as a correction, and the CPS will match again with SSA. Note that the student is not allowed to simply verify that the SSN is correct; the application will be rejected until the SSA database is updated.

If the student's application is rejected because he or she reported an incorrect SSN, the student should submit a correction to have the new (correct) SSN matched again with the SSA.

No match due to insufficient information

If the application is missing either the last name or the date of birth, no match with SSA will be conducted, and the student's application will be rejected. The CPS will check to see whether the reported SSN falls within a valid range. If it does, the student will receive a comment explaining that the match could not be conducted without the name or date of birth and telling the student to correct those items (Comment 59). The student must submit a correction providing the missing information. When the correction is sent, the information will be sent to SSA for matching, and the school should check the new output document for match results. If the SSN does not fall within a valid range, the student will receive a comment stating that the reported SSN does not appear to be valid (Comment 23). In addition to submitting the missing name or date of birth on a correction, the student must either contact SSA to correct its records (if the reported SSN is correct) or correct the SSN he or she reported. Again, the school should check the new output document for match results.

No match due to processing problems

If no match was conducted due to processing problems, the CPS will check to see whether the reported SSN falls within a valid range. If it does, the student will receive a comment telling the student to provide proof to the school that the SSN is correct (Comment 58). If the student does provide documentation to the school, he or she can receive aid without resubmitting the data. Note that if the student makes other corrections, the SSA match will be attempted again, and the school should check the results of that match.

If there was no match because of processing problems and the SSN does not fall within a valid range, the student's application will be rejected. The output document will have a comment stating that the SSN does not

appear to be valid (Comment 23). The student must correct the SSN (if it is wrong) and resubmit the SAR, or contact SSA to have it correct its records. In either case, the student must submit a correction so that the application will pass through the SSN match.

Note that once a student's SSN is confirmed, and there is no discrepancy on the name or date of birth, the student cannot change the SSN. If a student tries to correct a confirmed SSN, he or she receives a comment explaining that the SSN has been verified, and directing the student to contact the school for further assistance. If the student used a wrong SSN, but it was confirmed by SSA, the student will need to file a new application with the correct SSN, instead of making a correction. In certain circumstances, a student may need to use a correction application to correct the problem.

Correction applications

Correction applications are very rarely needed. They may be used in certain cases where two students reported the same SSN. A problem is likely to arise when spouses or siblings with similar names report the same SSN by mistake. In such a case, both applicants would be assigned the same record identifier, made up of the SSN and the first two letters of the applicant's last name. The shared number will cause problems for both applicants in the CPS and in the Pell disbursement system. The student using the correct SSN must submit a Correction Application, which will generate a new transaction for his or her record identifier but which will provide his own application data instead of carrying the data of the other student (with the wrong SSN) over. The student who reported the wrong SSN must refile a new FAFSA in order to change the SSN and the record identifier. The school can also submit the student's correct data through EDExpress, but must submit it as an original application, not an ISIR correction. A correction will not give the student a nonduplicated record identifier.

Both students should keep copies of all the output documents, including those from the first FAFSAs filed. When the students file the Correction Application or a new FAFSA, the application receipt date is changed. Because some schools and agencies use this receipt date to determine if the student met a deadline, the students should keep the output documents to show the original receipt date and to show why a second (and later) application was necessary.

A financial aid administrator who needs to receive a 1998-99 Correction Application should contact the Department's Application and Pell Processing Systems Division and ask for the Correction Application Coordinator. The telephone number is 1-202-260-9988. The Department will determine case by case if a Correction Application is necessary. If a Correction Application is necessary, the financial aid administrator may request that it be mailed either to the school or to the student.

Exception to the SSN requirement

Students from the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau are not required to provide SSNs. Students from these areas who do not have SSNs should send their FAFSAs to the following address—not to the address on the FAFSAs or on the FAFSA envelopes:

Federal Student Aid Programs
P.O. Box 4003
Mt. Vernon, IL 62864-8603

The Department prefers that schools bundle such applications and send them as a group. These applications will first be assigned a special identifying number (in lieu of an SSN) in Item 8 of the FAFSA and then will be sent to the CPS for regular processing. These applications are exempt from the SSN match with the SSA.

These students who are not required to have SSNs cannot use FAFSA on the Web or FAFSA Express to apply for SFA funds electronically. These students may, however, ask their schools to use EDExpress to transmit the student applications electronically if EDExpress is available.

REGISTRATION WITH SELECTIVE SERVICE

Most males age 18-25 must register

Most males from age 18 through 25—including permanent residents and other eligible noncitizens—are required to register with the Selective Service System. Anyone required to register with Selective Service must have done so in order to receive aid through the SFA Programs.

Persons exempted from this requirement include:

1. females;[3]
2. males currently in the armed services and on active duty (this exception does not apply to members of the Reserve and National Guard who are not on active duty);
3. males who are not yet 18 at the time that they complete their applications (an update is not required during the year, even if a student turns 18 after completing the application);
4. males born before 1960; and
5. citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau.

[3]Whether a person is a male or female is a matter for medical determination. If a school needs to determine whether a student is male or female for Selective Service purposes, the school should tell the student to write to Selective Service for a Status Information Letter.

Waiver of registration requirement

There are certain less common situations in which the registration requirement is waived. Students who are not required to have already registered prior to meeting one of these criteria and who meet one of the criteria for the entire time they are 18 through 25 qualify for the waiver if

1. they are unable to register due to being hospitalized, incarcerated, or institutionalized;

2. they are enrolled in any officer procurement program at The Citadel, North Georgia College, Norwich University, or Virginia Military Institute;

3. they are commissioned Public Health Service officers on active duty or members of the Reserve of the Public Health Service; or

4. they are commissioned officers of the National Oceanic and Atmospheric Administration.

School must document student's status

If the student qualifies for an exemption or waiver, and thus is not required to register, the school must document the student's status. If the student is not clearly exempt from the requirement to register, the school should ask the student to document the exemption by providing the school with a Status Information Letter from the Selective Service.

Registering students

The Department takes several steps to ensure that a student registers with the Selective Service when required and to provide convenient ways for the student to register: A student may check Item 103 on either the FAFSA or the SAR. By checking this item, the student gives the Department of Education permission to submit his registration information to the Selective Service so that the student may be registered.[4] As required by the HEA, the Department matches student aid applications with registration records from the Selective Service System. If the student's output document displays Comment 29, "Your registration or your exemption status has been confirmed by Selective Service," the school should consider the student in compliance with the requirement by being either registered or exempt.

Comment 29

If the Selective Service could not confirm the applicant's registration or if a match was not conducted because of technical reasons, one of the following five comments will appear. (See Appendix C for the complete comment text .)

1. Comment 14: The student received aid in a prior year and may not have registered.

[4]The student can be registered with Selective Service as early as 30 days before his 18th birthday; if the student is too young Selective Service will hold the registration until the student is within 30 days of his 18th birthday. Students 26 and older cannot be registered.

2. Comment 30: The Selective Service reports that the student is not registered.

3. Comment 32: The Selective Service did not conduct a match.

4. Comment 33: The student did not provide enough information for registration.

5. Comment 37: The Selective Service was unable to complete the student's registration.

Withholding funds

Until the registration problem is appropriately resolved, the school must withhold all SFA funds and must not certify a loan application for any student who receives any of these comments. Whenever one of these comments appears, a "C" will appear next to the student's EFC to alert the financial aid administrator that there is an eligibility problem that must be resolved before disbursements may be made.

Student must submit documentation

Unless the financial aid administrator has documentation proving that a student who receives one of these comments is exempt from registration, the student must present appropriate confirmation (that is, his Selective Service Registration Acknowledgement or his letter of registration) to the financial aid administrator. Otherwise, the student remains ineligible for SFA funds. If the student does not have any of these documents, he must reconcile the conflict with the Selective Service. If the conflict is resolved in the student's favor, the student will receive a letter from the Selective Service documenting that he is registered or that he is exempt from registering. Selective Service provides no letters for females because females are not required to register.

Students who are beyond the permissible age to register

In recent years, a number of students have been denied aid because they failed to register with the Selective Service before their 26th birthday. (The Selective Service will register only males age 18 through 25, leaving older students with no way to remedy their situation if they failed to register.) The Military Selective Service Act was amended to require a school, under certain conditions, to pay otherwise eligible students who are 26 or older and who did not register when required. To receive aid, such students must demonstrate that they did not knowingly and willfully fail to register. The Department of Education's regulations also allow students who did not register and are too old to register to receive aid if they served on active duty in the armed forces. (It is presumed that a person who has actually served in the armed forces is not trying to avoid registering for duty.) The financial aid administrator should obtain such a student's DD Form 214, "Certificate of Release or Discharge from Active Duty," showing military service in the armed forces with other than the reserve forces, the Delayed Entry pool, and the National Guard.

The financial aid administrator must determine whether a student who has not served in active duty knowingly and willfully failed to register. That is, the financial aid administrator must determine if the student knew of the registration requirement but, nevertheless, chose not to register. The procedures that a financial aid administrator should use to make this determination follow. The financial aid administrator's decision is final and cannot be appealed to the Department of Education.

Unless the financial aid administrator can document that the student meets one of the allowable exemptions regarding registration or can document that the student has served in active duty in the armed forces, the student must first write to the Selective Service so that he may receive a Status Information Letter addressing his failure to register. The student should provide as complete a description about his situation as possible: where he was living during the period when he should have registered, whether he was incarcerated or institutionalized, his citizenship status during the period, if applicable, and so on.

Status Information Letters

The Selective Service has a number of different types of Status Information Letters. Copies of the letters are included in Appendix B. A code appears in the lower left-hand corner to indicate the type of letter in question. The codes are listed here.

General exemption

- **E1-E7**
  A letter with any of these codes indicates that the student was not required to register or was exempt the entire time he could have registered (ages 18 through 25).

DOB before 1960

- **NR**
  A letter with this code indicates that the student was born before 1960 and is therefore not required to register.

Required; no record of attempt

- **RR**
  A letter with this code indicates that the student said he attempted to register but that Selective Service has no proof that he attempted to register.

Military service: noncontinuous

- **NM**
  A letter with this code indicates that the student did not register although he was on active duty in the armed forces only for a portion of the time when he could have registered (between ages 18 through 25) and was, therefore, required to register.

Required; compliance letter sent

- **RL**
  A letter with this code indicates that the student was required to register, that the Selective Service has no record of his registration, and that Selective Service records show he was sent

one or more letters requesting his compliance with the registration requirement during the period he was required to be registered.

◊ **RD**
A letter with this code indicates that the student provided a reason for not registering (or provided documentation proving him exempt from this requirement) but that the Selective Service determined the reason or documentation to be invalid; therefore, this code indicates that the student was required to register but did not.

Required; no valid exemption

If the student receives a "general exemption letter" (codes E1-E7) or a "DOB before 1960" letter (code NR), the student is exempt from registration and may receive SFA funds. If the student receives any other type of letter, the school must determine (based on all relevant evidence) whether the student knowingly and willfully failed to register. The letter from Selective Service is part of the relevant evidence. For example, if the student received a letter indicating a compliance letter had been sent (code RL), this letter would be a negative factor when the financial aid administrator makes the determination. If the student received a "Military Service: Noncontinuous" letter (code NM), the financial aid administrator may reasonably determine that the student did not knowingly and willfully avoid registration.

Final decision made by school

Most of these letters state that the final decision regarding the student eligibility rests with the agency awarding funds. For the purposes of the SFA Programs, the decision is made by the financial aid administrator, who represents the Department. If the school's financial aid administrator determines that the student's failure to register was knowing and willful, the student loses SFA eligibility.

The school's decision is final and therefore cannot be appealed to the Department. However, the Department will hear appeals from students who have provided their schools with proof of compliance with the registration requirement (i.e., that they are registered or exempt from registration) but who are still being denied federal student aid based on the registration requirement.

Relevant evidence

When deciding whether the student had knowingly and willfully failed to register, the financial aid administrator should consider the following factors:

◊ Where the student lived when he was age 18 to 25. For example, if a student was living abroad, it is more plausible that he would not come into contact with the requirement for registration.

- Whether the student claims that he thought he was registered. Mistakes in recordkeeping can occur. Correspondence indicating an attempt to register could form a basis for determining that the student did not knowingly and willfully fail to register. On the other hand, a letter from Selective Service stating that it received no response to correspondence sent to the student at a correct address would be a negative factor.

- Why the student was not aware of the widely publicized requirement to register when he was age 18 through 25.

Students who have questions about the Selective Service registration may contact the Selective Service at 1-847-688-6888.

BORROWING IN EXCESS OF LOAN LIMITS

If a borrower inadvertently exceeds the annual or aggregate loan limit allowed for the SFA Programs, he or she may be eligible for SFA funds if the excess loan amount is repaid in full or if satisfactory repayment arrangements are made with the loan holder. The borrower will remain ineligible for further SFA funds until one of these conditions is met.

Schools verify compliance, prevent excess borrowing

Because a school should have verified compliance before a loan is disbursed to the student, excess borrowing should not occur often. Financial aid administrators are encouraged to obtain financial aid information by using the NSLDS (rather than by using paper financial aid transcripts) because the NSLDS will catch many problems that might otherwise be overlooked. (See Section 2 for more on NSLDS.)

Following are some cases in which excess borrowing may have occurred:

- if a student borrowed for attendance at multiple schools and if the financial aid administrator did not receive the financial aid transcripts before disbursing a Perkins Loan, certifying a FFEL, or originating a Direct Loan;

- if the student used different names when borrowing; or

- if the student failed to disclose the names of other schools he or she had attended.

Cumulative loan limits may also be exceeded because of confusion over amounts borrowed versus amounts outstanding. See Chapter 6 for Perkins Loan limits, Chapter 10 for FFEL limits, and Chapter 11 for Direct Loan limits.

MEMBERS OF RELIGIOUS ORDERS

Members of religious orders are not permitted to receive subsidized FFELs, subsidized Direct Loans, Federal Pell Grants, or campus-based aid. Members of any religious community, society, or order that directs the students' courses of study or that provides the students with subsistence support are not considered to have financial need. Members of religious orders are eligible, however, for unsubsidized FFELs and unsubsidized Direct Loans.

INCARCERATED STUDENTS

If a student is incarcerated, he or she is ineligible for an SFA loan. Incarcerated students are eligible for FSEOGs and FWS. The Violent Crime Control and Law Enforcement Act of 1994 amended the HEA to prohibit the awarding of a Federal Pell Grant to any individual who is incarcerated in any federal or state penal institution (see Chapter 4, Section 1 for more information).

CORRESPONDENCE AND TELECOMMUNICATIONS COURSES

Course must lead to degree

A student enrolled in a correspondence course is ineligible for SFA funds unless the course is part of a program leading to an associate, a bachelor's, or a graduate degree. A student in a course of instruction offered in whole or in part through telecommunications is not considered to be enrolled in a correspondence course if the telecommunications program leads to an associate, a bachelor's, or a graduate degree from that school and telecommunications and correspondence courses at the school total less than 50% of all the courses offered. See Chapter 3, Section 1 for more information on telecommunications courses.

STUDENT CERTIFICATIONS AND STATEMENTS

In order to receive SFA funds, a student must sign certain statements. The required statements include

1. Statement of Educational Purpose, and

2. Certification Statement on Overpayments and Defaults.

Both statements are on the FAFSA. The statements will be printed on a student's SAR only if the student applies through FAFSA Express or FAFSA on the Web but does not print and mail the required signature page to the CPS. In this case, the student must sign Part 2 of the SAR (which includes the statements) and return it to the CPS. For Renewal

FAFSA on the Web, the Department expects to provide a mechanism for digital signatures, which means the student will not have to submit a signature page or send in the signature on Part 2 of the SAR. The Department will issue further guidance on this topic at a later date, in the form of an Action Letter. When issued, this up-to-date information will also be available on the SFA BBS.

In the Statement of Educational Purpose, the student certifies that he or she will use all SFA funds received only for education expenses at the school that determined the student's eligibility for those funds. For the FFEL Program, the statement must be filed with the lender. Therefore, the Statement of Educational Purpose is included on the loan application.

The Certification Statement on Overpayments and Defaults states that either the student does not owe a repayment on any SFA grant or loan and is not in default on any SFA loan or the student has made satisfactory arrangements to repay any overpayment or defaulted loan. The school may rely on this statement only until confirmation is received from NSLDS or financial aid transcripts. The student also certifies that he or she will notify the school if he or she owes an overpayment or has a defaulted loan. Remember that a student who is in default or who owes a repayment is generally not eligible for SFA funds (see "Loan Defaults and Overpayments" earlier in this chapter).

SPECIFIC PROGRAM REQUIREMENTS

In addition to these general requirements, some programs have additional eligibility rules. For instance, the Pell Grant Program requires that a school receive a valid output document while the student is still enrolled and is still eligible for payment. See chapters 4 through 11 for details on specific requirements for each program.

Section 2 The Student's Financial Aid History

Generally, when a student transfers from one school to another, the new school must receive a financial aid history for the student before it disburses or delivers SFA funds. Exceptions to this rule are discussed later in this section.

Purpose of obtaining a financial aid history

The financial aid history is needed to monitor two aspects of student eligibility. First, it tells the financial aid administrator how much aid a transfer student has received from the SFA Programs at other schools. By using this information, the aid administrator can make sure that the student does not receive an overpayment. Most of the SFA Programs have annual maximum limits; the loan programs also have cumulative maximum limits, as discussed in Chapters 6, 10, and 11. Second, the financial aid history is used to prevent a student from receiving any SFA aid if he or she is in default or owes a repayment on an SFA grant or loan.

NSLDS alternative

In the past, a school was required to obtain a student's financial aid history by requesting a paper financial aid transcript (FAT) from the previous schools the student attended. Since 1996, schools have also been permitted to obtain student financial aid histories through the National Student Loan Data System (NSLDS), a comprehensive database containing select financial aid history information. Schools were notified that NSLDS could be accessed for this purpose in "Dear Colleague" Letter GEN-96-13, published July 1996. (Notification was also published in the *Federal Register* on September 16, 1996.) This "Dear Colleague" Letter also provides detailed information on how to access and use NSLDS as an alternative to the FAT process.

Schools use NSLDS for a number of other functions besides accessing financial aid histories, such as reporting the status of Perkins Loans and completing required Student Status Confirmation Reports (SSCRs). The Department has incorporated the SSCR function into NSLDS beginning March 1997. (See "Dear Colleague" Letter GEN-96-17 for more on the SSCR process.) All schools that participate in the SFA Programs must enroll in NSLDS to use the SSCR function, even if they choose not to use the database to obtain financial aid histories. In this chapter, we will only be discussing the use of NSLDS to fulfill the financial aid history requirement.

NSLDS optional

Presently, although schools are strongly encouraged to use NSLDS for financial aid histories, they are not required to do so. NSLDS may be used as an **alternative** to the paper FAT. Schools may still request a student's financial aid history through a paper FAT, and a school that receives a request for a paper FAT must still complete and return the FAT to the requesting school. There are no changes to the requirements for requesting or receiving a paper FAT.

On-line access required

Although the use of NSLDS for financial aid histories is optional, as of January 1, 1998 schools are required to have on-line access to NSLDS. Schools were notified of this requirement in a *Federal Register* notice published on September 19, 1997. The notice listed deadlines for schools to participate in certain electronic processes. The Department will issue further guidance on this topic at a later date, in the form of an Action Letter. When issued, this up-to-date information will also be available on the SFA BBS.

NSLDS MATCH

All schools responsible for default and overpayment information from NSLDS

A student's application information is matched against the NSLDS database, and the results of this match are provided on output documents on the NSLDS Financial Aid History page and in the FAA Information Section. All schools are responsible for resolving any default or overpayment problems reported through the NSLDS match, even if they are not using NSLDS for financial aid histories. As is the case for other matches, problems that must be resolved are indicated by a "C" next to the student's EFC. The school must resolve these eligibility problems before disbursing aid. (See Section 1 for more on resolving default and overpayment situations.)

Partial match

If the student's SSN is in the database, but neither the first name nor date of birth matches those the student reported, the output document will have a comment explaining that the financial aid history is not provided because the name and date of birth do not match, and directing the student to work with the school to resolve any discrepancies (Comment 138). This partial match may result when students use nicknames. When there is a partial match, the output document will not have the financial aid history or any information on defaults or overpayments associated with the reported SSN, and will have a "C" code. A partial match **requires resolution**, as explained in the following paragraph; otherwise the school will not have information from the Department on defaults and overpayments.

If the student originally reported incorrect information, the school can have the student submit correct information; the student's information will then be sent through the match again. The school can also access NSLDS directly using the reported SSN to determine if the NSLDS record

Obtaining information through NSLDS

belongs to the applicant. The school determines whether the NSLDS record is the student's by considering whether other information it has about the student is consistent with the NSLDS data. For example, if the name reported on the application is a nickname and the name in NSLDS is the actual name, the school should determine that the record is the student's and use the NSLDS data in determining the student's eligibility. Or if the school knows that the student attended a particular school in a particular award year, and NSLDS shows aid received at the school in that year, the school may assume that the record belongs to the student. If the school discovers the discrepancy is due to the student misreporting the name or date of birth on the application, it should have the student make a correction. However, the school may use the NSLDS record to determine the student's eligibility; it does not need to wait for the corrected data to be reported.

If the school determines that the financial aid history associated with the student's SSN does not belong to the student, it may assume that the student has no relevant financial aid information. The school (or the student) may also contact the agency that reported someone else's data using the student's SSN, but is not required to do so. See "Dear Colleague" Letter GEN-96-13 for further discussion.

CHECKING PREVIOUS ATTENDANCE

Checking required if using FAT

A school not using NSLDS to obtain an applicant's financial aid history must determine if a student who applies for aid from the SFA Programs previously attended other eligible schools. The school must make an active effort to find out if the student previously attended other schools. For instance, most schools routinely ask any prospective student to state previous academic experience, either in the course of an admissions interview or on the school's application. The financial aid administrator is responsible for ensuring the "consistency of information" at the school regarding a student's eligibility (see Chapter 3, Section 2), and therefore must have a system to exchange such information with the admissions office.

Checking not required for NSLDS

A school using NSLDS for financial aid histories is not required to determine if the student previously attended other schools. However, in some cases a school using NSLDS will still want to contact previous schools directly, and so will need to determine if the student has attended other eligible schools. For example, if the student begins enrollment during the award or academic year, the output document might not have a completely current financial aid history, and the school might decide to contact previous schools for the current information. To do so, it will need to determine what schools (if any) the student previously attended.

USING NSLDS FOR FINANCIAL AID HISTORIES

There are five methods by which a school may obtain financial aid history information from NSLDS. The school may

- use the NSLDS Financial Aid History page of Part 1 of the SAR;
- use the NSLDS Financial Aid History section of the ISIR sent to a school through the Title IV Wide-Area Network (TIV-WAN);
- request an electronic file of financial aid history information for specific students through the TIV-WAN;
- request a print file of financial aid history information for specific students through the TIV-WAN; or
- log on to NSLDS directly and access the NSLDS data on-line for an individual student.

An output document will contain the NSLDS financial aid history information only if the student's identifying information matches the database and there is relevant information for the student in the database. The financial aid history will not be provided on a rejected application. The school can check the NSLDS results flag reported in the FAA Information Section to determine why an application has no NSLDS financial aid history.

Partial match

A results flag of "2" indicates that the SSN was found in the NSLDS database, but neither the name nor the date of birth matched what the student reported. A school must resolve this partial match situation (see page 2-40).

No history

A results flag of "3" indicates that the student's SSN is not in the database; therefore, the student has no financial aid history. The student will also receive a comment on the output document explaining that NSLDS confirmed that the SSN is not associated with any previous financial aid history (Comment 140). The school can assume the student has no financial aid history unless it has conflicting information.

No relevant history

A results flag of "4" indicates that the student's SSN is in the database, and the name or date of birth (or both) match what the student reported, but there is no relevant data to report. For example, no data would be reported if the only information for a student was for a Pell Grant received in the previous year, because that information is not needed to determine the student's eligibility for aid for the current year. The student will receive a comment explaining that his or her record was matched with

NSLDS, but no information was found to print on the NSLDS page (Comment 137).

Changes to NSLDS data

Once the school has received the financial aid history through NSLDS, it is not required to check for changes to the data before it disburses or delivers funds to the student. However, if the school learns (from NSLDS or another source) that the student was not eligible or is no longer eligible, it must not deliver or disburse any more SFA funds and must help make sure the student arranges to repay the aid that he or she was not eligible for. For 1998-99, the Department will introduce a new process, called postscreening. Under postscreening, the CPS will generate new SARs and ISIRs when the student's eligibility may have changed due to a change in NSLDS data, so that schools that are listed in the student's application information will automatically be notified.

NSLDS Transaction Number

To help schools identify when they have received an output document with changed NSLDS data, the Department provides the NSLDS Transaction Number. This number can be found in the FAA Information Section with the other match flags. The NSLDS Transaction Number is the number of the last transaction on which the NSLDS data changed. If a school receives an output document with an NSLDS Transaction Number later than the one on the output document the school used to determine the student's eligibility, the school should review the NSLDS data on the new document to be sure there are no changes affecting the student's eligibility. Note that if a student or school requests a duplicate output document, the request is also sent to NSLDS for matching. If the NSLDS data have changed, the request will be treated as a system-generated correction, and both the output document transaction number and the NSLDS Transaction number will be updated.

REQUESTING FAT INFORMATION

If the school does not obtain financial aid history information from NSLDS, and discovers that the student did attend another eligible school, the school is required to obtain FAT information from that school (or schools, if the student attended more than one eligible school) directly. The FAT information must be sent directly from the previous school to the current school (not to the student). The student may request that a transcript be sent, or the current school may make the request. In either case, the current school must document that a request was made. (Neither the school nor the student is required to request a financial aid transcript from a foreign school.) Note that although a student may make the request that a transcript be sent, it is the school, not the student, that is **required** to obtain the FAT.

A school is not required to use a paper FAT to obtain the FAT information directly from another school. A school may use any reasonable method to

obtain the information, as long as the school obtains all of the FAT information required by regulations and the school maintains proper documentation. In addition to a paper FAT, a school may obtain the information through written documentation, such as letters or faxes. All documentation must contain the signature of the official authorized by the previous school to provide FAT information. The use of electronic mail messages is not allowed because signatures cannot be attached to such messages.

Closed school

If it appears that the student's previous school has since closed, the current school can request the Department's assistance by writing to the following address:

Federal Student Aid Information Center
Financial Aid Transcript Request
P.O. Box 4129
Iowa City, IA 52244

The current school will receive one of the following responses from the Department's FSAIC:

- ◊ No transcript is required for this student because his or her school has closed, is no longer eligible to participate in the SFA Programs, or does not appear to be actively participating in the SFA Programs;
- ◊ The transcript must be requested directly from the school, which is currently in operation and is participating in the SFA Programs (the school's current name and address will be included in this response); or
- ◊ The request did not provide the needed information; the school must resubmit the request, providing the name of the student, the name and address (city, state) of the previous school, and the specific years of attendance in question.

If no transcript is required, either because the previous school is foreign, has closed, or does not participate in the SFA Programs, a school is not required to take further steps to obtain the financial aid history information. However, the school must use any information it is aware of to ensure that the student in question has not defaulted on an SFA loan. A school is required to check any ISIRs it receives as a result of the new postscreening process. Also, to prevent an overaward for the current award year, the school should secure the student's signed statement of the amounts of SFA Program funds that were awarded and disbursed to him or her for the current award year.

NSLDS AND MIDYEAR TRANSFERS

"Dear Colleague" Letter GEN-96-13

In some cases, NSLDS might not provide timely financial aid history information for students who attended another school during the same award year (midyear transfers). Because NSLDS data providers are on a monthly submission schedule (except Pell, which is weekly), the student's current information may not be available immediately when he or she transfers. The school has several options for obtaining financial aid history information for midyear transfer students.

1. The school can determine if the student previously attended other schools (as it normally would if it was relying on paper FATs) and obtain financial aid history information for a midyear transfer directly from the previously attended school or schools. If the previous school has closed, the school may check NSLDS or write to the FSAIC, as described on the previous page.

2. The school can use NSLDS for the financial aid history for previous years, and request only current year information from the previous school. The necessary current year information is: the student's name and SSN, the award year which the transcript covers, the student's scheduled Pell Grant, the amount of Pell funds disbursed, the amount of Perkins loan disbursed, and the amount of, and period of enrollment for, the most current loan made to the student under the FFEL and Direct Loan programs.

3. The school may use NSLDS and disburse aid if it checks NSLDS no earlier than 60 days after the student's last date of enrollment at the other school. Waiting for 60 days after the student's previous enrollment has ended should allow enough time for all the data from the previous school to be reported. If the school later discovers that the student should not have received all or some of the aid, the school would not be liable, but the student would be responsible for repaying any amounts for which he or she was not eligible.

4. The school could review the NSLDS data from the student's output document and then make an initial disbursement of Pell and campus-based funds or certify or originate loans as is permitted when a school is waiting to receive an FAT it has requested (see the next page). The school would then check NSLDS no earlier than 60 days after the student's last enrollment at the previous school; it may then make subsequent disbursements or release loan funds, if the student's eligibility is confirmed.

Pell and campus-based programs

Once the school has requested the FAT information, the school may pay the student under the Pell Grant and campus-based programs for one payment period only. If a school exercises this option, after it receives the transcript information the school must make any necessary adjustments to the student's aid package before making another payment. Also, the school must have documentation that the FAT information was requested. The school is not liable for the amount of the first payment if the school never receives the FAT information (or if the information arrives and shows that the student is ineligible). However, the school may not make any subsequent payments to the student without receiving the transcript information, and the school must attempt to collect any overpayment from the student.

Federal Stafford

After requesting the transcript information, the school may certify a Stafford loan application for the student, but the school may not release the proceeds from the loan until after the transcript information is received. If the school does elect to certify a Stafford loan application and then receives FAT information that shows the student to be ineligible for payment, the school must return the loan proceeds to the lender. In addition, beginning with the 1997-98 award year, the school may not hold FFEL proceeds for more than 10 days (this changes to three days beginning with award year 1999-2000). If the FATs still have not arrived at the end of the 10 days, the school must return the loan proceeds to the lender. For more information on the return of FFEL Program funds to a lender, see Chapter 10.

PLUS

Under General Provisions regulations, the school may not certify a PLUS application until the school has received the FAT information.

Direct Loan

After requesting the transcript information, the school may originate a Direct Loan award for the student, but the school may not disburse funds to the student until the transcript information is received.

Payment without transcript: no SFA funds received, records unavailable

In several cases, the regulations permit the school to pay a transfer student without receiving a financial aid transcript. The school may pay the student as usual if the previous school certifies that the student did not receive SFA Program funds or certifies that the record retention period for the student's period of attendance has expired and the previous school no longer has the student's records. (See Chapter 3, Section 7 for recordkeeping requirements). As mentioned earlier, the new school may also pay without transcript information if the new school discovers that the previous school has closed and the requested information is not available.

SENDING A TRANSCRIPT

Reasons for not sending transcript

When a school receives a request for FAT information, the school must promptly provide the requested information. If the student did not receive assistance from the SFA Programs, or attended the school so long ago that the record retention period has lapsed and the school no longer has those records, the school must notify the requesting school in writing that the transcript information will not be sent and specify the reason. (See Chapter 3, Section 7 for recordkeeping requirements.)

Listing other schools attended

If the school sending the transcript information has any information indicating that the student had attended any other schools, it must include the names of those schools with the transcript information (or in the written response, if the school is not required to send transcript information). When the school requesting the transcript information finds that the student has attended another school, it must also request transcript information from that school.

A school cannot withhold FAT information for a student who owes a debt to the school (such as unpaid tuition and fees, or a library fine or parking fine). However, the Department does not discourage the withholding of official academic transcripts in compliance with applicable state laws.

Signature requirement

All FAT information must be signed by the person the school authorizes to sign transcripts and other financial aid documents; the transcript does not need to be certified. Using a signature stamp to validate transcript information is also acceptable if the stamp's use is restricted for use by specific financial aid personnel. In either case, a school is liable for any inaccurate information provided. Note that a school may accept a facsimile of transcript information, provided it is properly completed and signed.

REQUIRED INFORMATION ITEMS

The transcript information must include

- *the student's name and Social Security Number.*
- *whether the student is in default on an NDSL, or Perkins Loan, or owes a repayment on a Pell Grant, Perkins Loan, or FSEOG at that school.* The school should always be able to tell from its own records if the student is in default or owes a repayment for any of these programs.

- ◊ *if known, whether the student owes a repayment on an SSIG or is in default on a FFEL or Direct Loan received at that school.* In many cases, the holder of the debt (the guaranty agency, the state agency, or the Department) will have informed the school if the student is in default or owes a repayment.

- ◊ *for the award year in which the transcript is requested, the amount of Perkins funds disbursed.*

- ◊ *the total amount of any loans received by the student under the Perkins and NDSL programs at that school.*

- ◊ *whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on July 1, 1987.* This will affect whether the student may be considered a new borrower in the Perkins Loan Program. New Perkins borrowers are given a nine-month grace period, rather than the six-month NDSL grace period and are eligible for a deferment or cancellation for volunteer service in the Peace Corps.

- ◊ *whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on October 1, 1992.*

- ◊ *the amount and period of each loan made to the student under the FFEL and Direct Loan programs at that school.* This includes PLUS loans taken out by the student's parents on the student's behalf.

- ◊ *the student's Scheduled Pell Grant and the amount of Pell Grant funds disbursed to the student for the current award year.*

FSEOG

Schools do not have to report information on FSEOG awards with the transcript information because annual FSEOG maximums apply only to the amount that the school may award during an award year, not to how much the student may receive from multiple schools.

Information about aid at other schools attended

When responding to an FAT request, a school is not required to include information about the amount of aid awarded at other schools or the student's default or overpayment status at other schools. However, the school sending the transcript must list these other schools with the transcript information, and the new school must make sure that it has received transcript information from those schools.

A school may decide to provide additional information such as types of work-study or cooperative-education study performed, institutional scholarships awarded, or Pell awards received in prior years. A school may also include any information about a student's eligibility for, or

receipt of, financial aid if the school considers that information useful to the school the student will be attending.

NSLDS Information

The NSLDS Financial Aid History page includes information similar to that in the list above, as well as additional information:

- *The student's name and Social Security Number.*
- *Whether the student is in default on loans received at any school.* Note that an output document for a student who has defaulted loans will have a "C" next to the EFC.
- *Whether the student owes an overpayment at any school.* Beginning in 1998-99, NSLDS also provides contact information for the holder of the overpayment.

- *Whether the student filed for bankruptcy protection on a SFA debt.*
- *Whether the student has had a loan discharged due to death or disability, or has made satisfactory repayment arrangements on a loan.* For 1998-99, the Department has added a flag to the page for each of these categories

- *The aggregate amounts the student borrowed under FFEL and Direct Loans at all schools.* In addition to reporting the outstanding principal, NSLDS provides the amount of pending disbursements and a total loan amount (the sum of the outstanding principal plus pending disbursements). If Consolidation Loan amounts are listed and if the outstanding principal balance may affect student eligibility for additional loan amounts, the school must determine what portions of the Consolidation Loan should be attributed to each of the loan types by logging into NSLDS or contacting the loan holder.
- *The cumulative amount of Perkins Loans disbursed to the student and, for the current award year, the annual amount of Perkins Loans disbursed.* Note that NSLDS does not report whether loans were disbursed prior to 1987.
- *Indicators showing if any Perkins Loans were awarded under the Expanded Lending Option (ELO), which changes the annual and cumulative maximum allowed.*

◊ *The student's Scheduled Pell Grant, the amount of Pell Grant funds disbursed to the student for the current award year, and the percentage of the Scheduled Award used.* In previous years, this information was not provided on the NSLDS page itself, but was available if the school accessed NSLDS directly.

◊ *Details on up to 12 loans.* This list is a combination of two lists (defaulted loans and most recent loans) provided in previous years. The list includes the type of loan, the current loan status and date of that status, the outstanding principal balance, the loan period, identifiers indicating the guaranty agency (if a FFEL), the school that administered the loan, the current servicer, and—if the Department is holding the loan—the regional office holding it. The loans are listed in order by the date the loan period began (most recent loan first); loans with the same beginning date are sorted by principal balance (largest balance is first). If more than 12 loans exist, the NSLDS Information page will include a message stating "Access NSLDS for additional loan records." The school may access NSLDS directly (through TIV-WAN) for additional information.

MODEL TRANSCRIPT

Although there is no official form for the required FAT information, the National Association of Student Financial Aid Administrators (NASFAA) has developed an FAT form that schools may use as a model (see the following pages). Financial aid administrators may receive a copy by writing to NASFAA at 1920 L Street N.W., Suite 200, Washington DC 20036.

Part I

Part I of the transcript contains identifying information about the student and may be filled out either by the student or by the requesting (current) school. The student's signature is optional. However, the transcript must include the student's name and Social Security Number.

Part II

Part II of the transcript gives the student's financial aid history, as completed by the financial aid office at the prior school. **Section A** gives information about other schools the student attended. **Section B** is used when the school is not providing the student's financial aid history either because the student did not receive SFA funds at the school or because the record retention period has expired and the records are no longer available. **Section C** contains several statements regarding the SFA funds received by the student, including outstanding loan balances, repayments owed, and defaults. The school should check all statements that are true for the student in question. **Sections D and E** are used to report amounts of aid received from the SFA Programs. **Section F** is the signature block for the school sending the transcript.

FINANCIAL AID TRANSCRIPT

PART I: To be completed by the STUDENT.

Instructions: If you ever attended another postsecondary institution, you ***must*** complete Part I of this form and submit it to the Financial Aid Office of that institution. Federal regulations require that a Financial Aid Transcript request be sent to ***every*** institution you previously attended, regardless of whether you received aid to attend that institution.

Name _____ Social Security # _____
Last First M.I. Maiden

Name used at previous institution (if different from above) _____

Student's Address: _____

I request that the Financial Aid Office at

_____

which I attended from _____ to _____ provide the information requested in Part II to the institution shown to the left.

I ❑ did ❑ did not receive aid while a student at this institution.

Student's Signature (optional):

_____

(Fold here for window envelope)

PART II: To be completed by the STUDENT FINANCIAL AID OFFICE at the previous institution.

Complete either: • Sections A, B and F; OR
• Sections A, and C through F.

SECTION A **Other Institutions Attended. (Everyone must complete this section.)**

The institution has information indicating the student attended institutions other than this institution.

❑ No, our records show no previous institution attended.
❑ Yes, our records indicate that the student has attended the following institutions: _____

_____

SECTION B **To be completed if the institution is not completing Sections C, D, and E.**

The information requested in Sections C, D, and E is not provided because:

❑ The student neither received nor benefited from any Title IV aid while at this institution.
❑ The transcript pertains solely to years for which the institution no longer has and is no longer required to keep records under the Title IV recordkeeping requirements.

If you have completed Section A and checked one of the reasons in Section B, and are not required to provide any other information, skip Sections C, D, and E, and complete Section F. Otherwise, proceed with Section C.

SECTION C **Check all statements that apply.**

❑ The student received increased Federal Perkins Loan/NDSL at this institution due to Expanded Lending Option or study abroad.
❑ The student had an outstanding balance on an NDSL at this institution on July 1, 1987, *which is still outstanding as of today's date.*
❑ The student had an outstanding balance on a Federal Perkins Loan/NDSL at this institution on October 1, 1992, *which is still outstanding as of today's date.*
❑ The student owes a refund due to overpayment on a Federal Pell Grant, FSEOG or Federal Perkins Loan/NDSL at this institution.
❑ The student is in default on a Federal Perkins Loan/NDSL/Income Contingent Loan (ICL) at this institution.
❑ The institution is aware that the defaulted Federal Perkins Loan/NDSL/ICL has been discharged in bankruptcy.
❑ The institution knows the student owes a refund due to overpayment on SSIG received for attendance at this institution.
❑ The institution knows that the student is in default on a Federal Family Education Loan or a William D. Ford Federal Direct Loan received for attendance at this institution (including consolidation loans).
❑ The institution is aware that the defaulted Federal Family Education Loan or a William D. Ford Federal Direct Loan has been discharged in bankruptcy.
❑ The student received "additional unsubsidized" Federal Stafford/Federal Direct Stafford/Ford funds at this institution as an independent student or as a dependent student whose parent was unable to borrow Federal PLUS/Federal Direct PLUS.

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SECTION D Assistance Received or Benefited From at This Institution

For ALL federal aid programs: When indicating totals, deduct any refunds, repayments, or Federal Pell Grant recoveries which have been returned due to an overpayment or student withdrawal. Do NOT deduct Federal Perkins Loan/NDSL prepayments or payments made according to a repayment schedule.

Sources of Assistance		Current Year Amounts 19____–____	Cumulative Total (include current year)
Federal Pell Grant:	Total Disbursed to Date:		xxxxxxxx
	Scheduled Award (full time, full year):		xxxxxxxx
Does the school expect to make additional disbursements to the student after this transcript is signed? If so, indicate when: _____		xxxxxxxx	xxxxxxxx
Federal Perkins/NDSL Loans			
SSIG/State Grant/Other aid* (optional – identify each)			

* If this school participates in health professions aid programs through the Department of Health & Human Services, include them here.

SECTION E Federal Family Education Loans/William D. Ford Federal Direct Loans Borrowed While at This Institution

Column I - list loan period, grade level, and loan amounts borrowed from the Federal Family Education Loan/William D. Ford Federal Direct Loan Program for either the current year, or the academic year immediately preceding the current year (if no loan borrowed during current year). If no loan was borrowed for *either* of these periods, leave Column I blank.
Column II - list total of ALL Federal Stafford/Federal Direct Stafford/Ford AND Federal SLS/ALAS loans borrowed at YOUR institution.
Both Columns - deduct any refunds or repayments which have been returned due to student withdrawal; do not deduct loan fees.

	I. Current Year Loan (If no current year loan, list loan for immediately preceding academic year, if any)			II. Cumulative Total at this Institution (Include Column I amounts)
Federal Family Education Loans and William D. Ford Federal Direct Loans	Loan Period* *Use mm/dd/yy*	Grade Level	Amount Borrowed**	Total Amount Borrowed
Subsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from __/__/__ to __/__/__			
Unsubsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from __/__/__ to __/__/__			
Federal SLS	from __/__/__ to __/__/__	xxxxx		
Federal PLUS/Federal Direct PLUS	from __/__/__ to __/__/__	xxxxx		xxxxxxxxxxxxxx

* Include all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.
** Total of all loans from all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.

SECTION F This section must be completed.

Authorized Signature _____ Date _____
Typed Name _____ Title _____
Name of Institution _____
Address _____
_____
Telephone _____
COMMENTS _____
_____

Form developed by the National Association of Student Financial Aid Administrators

Revised 10/19/9-

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Section 3 Overview of Financial Need

A student must demonstrate financial need to receive all Student Financial Assistance (SFA) except for unsubsidized loans under the Federal Family Education Loan (FFEL) Program and the Direct Loan Program. These loans include unsubsidized Federal Stafford Loans, Federal PLUS Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. Unlike scholarship programs that may award funds based on academic merit or based on the student's field of study, SFA Program aid is administered based on the family's need for assistance.

Financial need is simply defined as the difference between the student's cost of attendance (COA) and the family's ability to pay these costs. Note that the student's financial need will be reduced by aid that is awarded to the student.

Financial need. The difference between the cost of education and the amount the family can contribute (EFC).

Education costs for the SFA Programs are defined by statute and are fairly easy to calculate based on the student's tuition and fee charges, living situation (e.g., on campus, off campus with parents, off campus without parents), as well as other factors affecting the student. However, the student's ability to contribute toward these costs, as measured by the Expected Family Contribution (EFC), is much more complicated to assess.

This section examines the concepts related to financial need. The section first discusses family contribution analysis. Discussion of the COA follows; then overawards and financial aid packaging are addressed.

The EFC is the amount that a family can reasonably be expected to contribute toward college costs. The EFC is based on an analysis of the family's financial strength, including the income and assets of the student and the student's spouse or—if the student is dependent—the student and his or her parents. The EFC formula also considers factors such as the number of persons in the household, the number of those persons attending college, and the special costs of families in which both heads of household work. For more information on how the EFC is calculated, see *The EFC Formula Book, 1998-99.* You may order a copy by calling the Federal Student Aid Information Center at 1-800-4-FED-AID.

If the EFC is less than the COA (in other words, if the student's family cannot be expected to contribute the full costs faced), the student is considered to have financial need. In the case of eligibility for a Pell Grant, however, a maximum eligible EFC is determined annually. Although a student whose EFC exceeds the maximum may have financial need, he or she is not eligible for a Pell Grant. For 1997-98, the maximum EFC that a student could have to qualify for a Pell Grant was 2500. (At the time this Handbook went to print, the maximum EFC has not yet been determined for 1998-99.) As long as the EFC is less than the cost of attendance, the student will remain eligible for aid from other SFA Programs, provided that he or she meets the other eligibility requirements of those programs.

Maximum EFC: 2500

Simplified needs test

Some students will have more than one EFC calculated. The CPS will calculate a simplified EFC for a student who meets certain income and tax-filing requirements. When an applicant meets the requirements for a simplified needs test, family assets are not considered in the calculation; therefore, the student does not need to provide this information on the application. If the student does provide the information on family assets, however, the CPS will calculate two EFCs—a Primary EFC, which uses the simplified formula, and a Secondary EFC, which uses the full formula. In all cases, the Secondary EFC will be equal to or higher than the Primary EFC. The financial aid administrator may use either figure to determine eligibility for aid from any SFA Program.

EFC for 9-month enrollment

The EFC found in the upper right hand corner of the first page of the output document is based on a 9-month enrollment period and should always be used for awarding a Pell Grant, even if the student is attending for a longer or shorter period. The second section of the FAA Information area contains headings for the number of months, Primary EFC, and Secondary EFC, as well as a table of 1- to 12-month alternate EFCs. The figures in the table represent alternate EFCs that the financial aid administrator may use to award aid—other than Pell Grants for which the 9-month figure is always used—if the student is attending for less than or

EFC for other than 9-month enrollment

greater than the standard 9-month period. For dependent students, the alternate EFCs for periods of attendance other than 9 months are calculated by the CPS according to a formula prescribed in the HEA. For independent students, the law does not specify the adjustments, so the CPS performs a simple proration of the EFC by month for the convenience of the financial aid administrator.

Note that if only a Primary EFC appears in this area, either the student has not met the simplified-formula criteria (based on income or tax-filing status) or the student met the criteria but did not supply sufficient asset information to permit a Secondary EFC calculation.

Special circumstances

If the student has special circumstances not taken into account by the EFC formula, the financial aid administrator may use professional judgment to adjust—on a case-by-case basis—the value of specific data reported on the student's SAR. Special circumstances are conditions that differentiate an individual student, not conditions that exist for a whole class of students. Adjustments may increase or decrease a student's specific data item used to calculate the EFC or used in calculating the COA. For example, if a dependent student's parent had been retired since 1997 and, thus, the family expected to have a lower income for 1998, the financial aid administrator might use professional judgment to adjust the parents' income. The reason for an adjustment must relate to that student's special circumstance and must be documented in the student's file. For more information on the use of professional judgment, see *The Counselor's Handbook* and the discussion on "Professional Judgment" that appears later in this section.

One of the most significant decisions in need analysis concerns whether the student should be treated as a dependent student or as an independent student (in other words, whose ability to contribute should be analyzed?). If the student is considered to be dependent on his or her parents, information on the income (and assets, if applicable) of the parents must be collected on the financial aid application, and a parental contribution will be added to the student's contribution to determine the EFC.

Independent student definition

For the 1998-99 award year, a student is automatically independent if he or she meets one of the following criteria. Complete definitions of these criteria can be found in the 1998-99 *Free Application for Federal Student Aid*.

1. The student was born before January 1, 1975.
2. The student is a veteran of the U.S. armed forces.
3. The student will be enrolled in a graduate or professional program (beyond a bachelor's degree).

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4. Either the student is a ward of the court (or was a ward of the court until age 18), or both parents are deceased and the student has no adoptive or legal guardian. Note that a student is not considered a ward of the court based only on being incarcerated.

5. The student is married (this definition may depend on the common law rules in the student's state of legal residence).

6. The student has legal dependents other than a spouse.[1]

Note that a student's living situation (that is, whether the student lives with his or her parents) does not affect the student's dependency status.

In unusual circumstances, a student who does not meet any of these criteria may still be considered to be independent on the basis of the financial aid administrator's professional judgment. The financial aid administrator must make this decision on an individual (case-by-case) basis and must document the reason(s) for the decision. *The Counselor's Handbook* provides information on the proper procedures for performing a dependency override.

Bear in mind that the aid administrator may use professional judgment only to classify as independent a student who would otherwise be considered dependent. An aid administrator cannot require a student who meets one of the criteria for independence to file as a dependent. However, the financial aid administrator may adjust an independent student's assets or income to include a parental contribution if the aid administrator decides that such a contribution is warranted. Again, any such individual determination must be documented in the student's file.

PROFESSIONAL JUDGMENT

Although aid administrators have asked the Department to provide guidance on making professional judgment decisions, the Department historically has given only limited advice. Following are guidelines regarding this inherently subjective process.

The only areas where the law allows aid administrators to apply professional judgment are: Independent student status, calculation of

[1]In addition to the student's dependent children, a legal dependent (as defined on the FAFSA) is any person who 1) lives with the student at the time the application is filed, 2) receives more than half of his or her support from the student at the time of filing, and 3) will continue to receive that support between July 1, 1998 and June 30, 1999. An otherwise dependent student would—if she or he had a legal dependent as defined above—be considered an independent student, regardless of the nature of the relationship between the student and the dependent. Note that the legal dependent would also be included when reporting "Household Size" and "Number in College" (if applicable) on the FAFSA.

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expected family contribution, calculation of cost of attendance, satisfactory academic progress, and denial or reduction of eligibility for FFELs or Direct Loans. The school cannot modify either the formula or the tables used in the EFC calculation; it can only change the values of specific data items used in the calculation. In addition, an aid administrator cannot adjust data elements or the cost of attendance solely because he or she believes the tables and formula are generally not adequate or appropriate.

The aid administrator may **not** exercise professional judgment to waive general student eligibility requirements or to circumvent the intent of the law or regulations. The Department specifically prohibits the use of professional judgment to change FSEOG selection criteria. Nor can the aid administrator include post-enrollment activity expenses in the student's COA. (For example, professional licensing exam fees are not allowable costs.)

Occasionally aid administrators make decisions contrary to the professional judgment provision's intent. These **unreasonable** judgments have included, for example, the reduction of EFCs based on reoccurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators, whom the Department grants significant latitude in exercising professional judgment, are expected and required to make **"reasonable"** decisions that support the intent of the provision. Note that the school is held accountable for all professional judgment decisions made, and that each decision must be fully documented.

Income protection allowance

In making adjustments for unusual expenses, an aid administrator should keep in mind that the income protection allowance is already included in the EFC calculation to account for modest living expenses. The administrator might want to consider whether the expense is already taken into account through the income protection allowance before making an adjustment. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA"). See also *The EFC Formula Book, 1998-99* for tables listing income protection allowances.

COST OF ATTENDANCE (COA)

SFA Need= COA-EFC-aid from other sources

The cost of attendance (COA) is an estimate of a student's education expenses for the period of enrollment. A student's financial need for SFA Program funds (other than the Pell Grant) is equal to the student's COA, minus his or her EFC, minus his or her Pell Grant eligibility, minus

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financial aid from other sources. Another way to express this formula is to say that the total aid the student may receive from the SFA Programs and other sources (when added to the student's EFC) may not exceed the student's COA. (However, note that the Federal PLUS, the Direct PLUS, the unsubsidized Federal Stafford, and the Direct Unsubsidized loan may be substituted for the EFC, as described later.)

The components of the COA are the same for all SFA Programs. However, in the case of programs of study or enrollment periods that are less than or greater than the school's academic year, the COA for purposes of loans and campus-based aid differs from the COA for the Federal Pell Grant Program. The Pell costs are always prorated to the costs for a full-time student for a full academic year, but the COA for the other programs is based on the student's actual costs for the period for which need is being analyzed. See Chapter 4 for more information on Pell.

A student's COA generally is the sum of the following:

- ◊ The tuition and fees normally assessed for a student carrying the same academic workload, including costs of rental or purchase of equipment, materials, or supplies required of all students in the same course of study;
- ◊ An allowance for books, supplies, transportation, and miscellaneous personal expenses;
- ◊ An allowance for room and board (see the following chart);

Student category	An allowance of not less than*
Student who lives with parents and has no dependents	$1,500
Student living in institutionally owned or operated housing without dependents	The standard allowance normally assessed most residents
For all other students	$2,500

* Note that these minimums are for a standard 30-week period. If the loan period or the campus-based award is for a shorter period, the applicable minimum is prorated down, based on the number of weeks.

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- ◊ For a student with dependents, an allowance for costs expected to be incurred for dependent care (during periods that include, but that are not limited to, class time, study time, fieldwork, internships, and commuting time for the student), the amount of which should be based on the number and age of such dependents and should not exceed reasonable cost in the community for the kind of care provided;

Study abroad

- ◊ For study-abroad programs approved for credit by the student's home institution, reasonable costs associated with such study;

Costs related to disabilities

- ◊ For a disabled student, an allowance for expenses (including special services, personal assistance, transportation, equipment, and supplies) reasonably incurred, related to the student's disability, and not provided for by other agencies;[2]

Cooperative education

- ◊ For students placed in a work experience through a cooperative education program, an allowance for reasonable costs associated with such employment; and

Origination fees and insurance premiums

- ◊ For students receiving SFA loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for a FFEL). Schools may also include the fees required for nonfederal student loans (that is, nonfederal loans that must be considered resources for the student when packaging aid). In all cases, the school can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at that school.

Exceptions to the Normal Cost of Attendance (COA) Allowances

Following are the exceptions to the normal COA allowances discussed above:

Less-than-half-time status

- ◊ For students who are enrolled less than half time, only the costs for tuition and fees and allowances for books and supplies, transportation (but not miscellaneous expenses), and dependent care expenses may be included as part of the COA.

[2]A student is considered disabled if he or she is deaf, mentally retarded, hard of hearing, speech or language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services. There is no maximum on the allowance for expenses related to a disability. However, the school should be careful not to include costs for services or equipment provided free of charge by other assisting agencies.

Correspondence students

◊ Generally, the COA for a correspondence study student is restricted to the costs for tuition and fees. However, if the student is fulfilling a required period of residential training, the COA can also include required books and supplies, an allowance for travel, and room-and-board costs specifically incurred. (Note: a student is not eligible to receive aid from the SFA Programs for correspondence courses unless they are a part of an associate-, bachelor's-, or graduate-degree program and unless the school meets the criteria for the percentage of courses taught using this medium. See Chapter 3 for more details.)

Incarcerated students

◊ The COA for incarcerated students is limited to tuition and fees and required books and supplies. Bear in mind that an incarcerated student is ineligible to receive an SFA loan; if a student is incarcerated in a federal or state penal institution, he or she cannot receive a Pell Grant (see Chapter 4).

Students receiving instruction by telecommunications

◊ In determining a student's COA, no distinction is made regarding the mode of instruction, except that the cost to rent or purchase equipment is excluded for students receiving instruction by telecommunications. However, if the aid administrator, using professional judgment, determines that instruction by telecommunication substantially reduces elements of a student's COA, the aid administrator must adjust the COA accordingly and thereby reduce the student's eligibility for grants, loans, or work-study assistance.

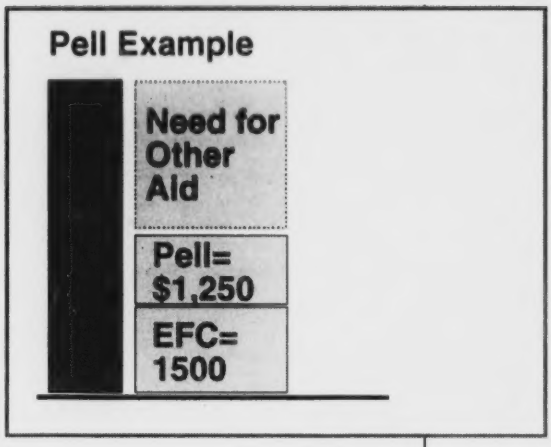
Special circumstances

◊ The financial aid administrator has the authority to use professional judgment to adjust the COA for the SFA Programs on a case-by-case basis to allow for special circumstances. Such adjustments must be documented in the student's file. (See "Professional Judgment" above.)

AWARD CALCULATIONS, RESOURCES, AND ESTIMATED FINANCIAL ASSISTANCE

A basic premise of need-based aid is that the total package of aid must not exceed the student's financial need. Aid in excess of need is referred to as an overaward (see "Overawards" later in this section). Because of differences in the way aid is handled in each of the SFA Programs, there are differences in the way that each program takes into account other sources of aid.

Determining Remaining Need

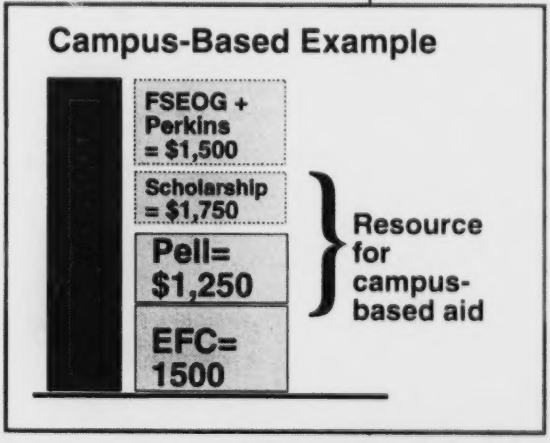


Pell Grants are considered to be one of the first sources of aid to the student. The Department issues Pell Grant payment and disbursement schedules that base the award solely on the student's COA, EFC, and enrollment status. When awarding other sources of need-based aid, the financial aid administrator must take eligibility for the Pell Grant into account. It is always possible, however, that the student will receive a scholarship or other aid that, in combination with the Pell Grant, causes the student's financial aid package to exceed his or her need. The school may not award additional need-based **federal** aid that would cause the package to exceed the need. If the student's need is exceeded due to the combination of the Pell Grant and other sources of aid, the student is still eligible for the Pell Grant as determined by the payment or disbursement schedule.

Campus-based: resources

In contrast to the Pell Grant Program, the regulations for the campus-based programs specifically require the school to take into account all resources available to the student when funds are awarded from these programs.

Such resources include the student's Pell Grant eligibility (whether or not the student applies for a Pell Grant), subsidized Stafford Loans, Direct Subsidized Loans, veterans benefits, outside scholarships, and net earnings from **need-based** employment that will be received during the award year. If the total of the student's EFC, resources, and campus-based aid exceeds the student's COA, the campus-based aid must be reduced to prevent an overaward. However, note that there are overaward thresholds (discussed later in this section and in Chapter 5, Section 2) for the campus-based programs.



Suppose a student has a cost of attendance of $6,000, and an EFC of 1500. The student's resources are a $1,250 Pell Grant and a $1,750 outside scholarship. The school may award the student a $500 FSEOG and a $1,000 Perkins Loan to fully meet the student's financial need.

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Veterans benefits

For SFA purposes, veterans education benefits are treated as resources, not as income, and therefore are not reported as income on the FAFSA. Note that the income earned from the Veterans Administration Student Work-Study Allowance Program (VASWSAP) is not treated as a veterans education benefit, so it is **not** considered a resource. It should be reported as untaxed income (not income earned from work) on the FAFSA.

FFEL and Direct: estimated financial assistance

The statute governing the Federal Family Education Loan (FFEL) Program (subsidized and unsubsidized Stafford, as well as PLUS) and Direct Loan Program (Direct Subsidized, Direct Unsubsidized, and PLUS) does not use the term "resources" as defined for campus-based programs. Instead, a similar measure, called "estimated financial assistance," is used for determining FFEL and Direct Loan eligibility. Despite the different terminology, the two measures include the same sources of assistance.

"RESOURCES" (for campus-based aid) ***and "ESTIMATED FINANCIAL ASSISTANCE"*** (for FFEL and Direct Loans) include:

FEDERAL AID

Pell Grant eligibility,*
Gross Stafford Loan or Direct Loan funds received**
Campus-based aid (FSEOG, Perkins, FWS [less the direct costs of employment])**

Veterans education benefits

Insurance programs for the student's education, which includes Social Security education benefits

* Estimated amount the student would receive, whether or not the student actually receives it

** These are not regarded as a resource in the need equation for the program for which the need is being determined. In other words, if the aid administrator is determining the need for a Stafford loan, the amount of Stafford loan to be awarded is not a resource.

SCHOOL & PRIVATE AID

School and other scholarship and grant aid, including:
- athletic and ROTC scholarships
- ROTC subsistence allowance
- fellowships and assistantships
- waiver of tuition and fees

Net earnings from need-based employment

School loans (long-term)***

Loans from state and other loan programs***

*** Unless these amounts were used to finance the family contribution. See text for an explanation.

The unsubsidized Stafford, PLUS, Direct Unsubsidized, Direct PLUS, and state and private education loans are not considered to be resources or estimated financial assistance to the extent that they finance (or replace) the EFC. Thus, students may borrow under these programs up to the amount of the EFC without affecting eligibility for campus-based aid, a subsidized Stafford Loan, or Direct Subsidized Loan. For instance, in the campus-based example just shown, the student could receive a $1,500 private education loan, unsubsidized Stafford Loan, or Direct Unsubsidized Loan without being overawarded. None of these loans would be considered a resource as long as it did not exceed the EFC.

The school may certify an application for a subsidized Stafford Loan or Direct Subsidized Loan only for the amount of need that remains after subtracting both the student's EFC and estimated financial assistance from his or her COA. As noted previously, the student can also borrow unsubsidized loans beyond his or her need as long as the loan does not exceed the EFC. Note that a student may qualify for a combination of subsidized and unsubsidized loans.

Dependent student

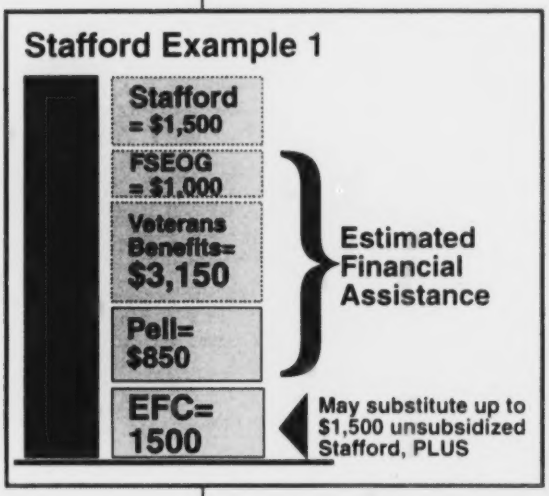
A dependent student can borrow a combination of subsidized and unsubsidized loans up to the applicable Stafford or Direct Loan limit. The limit for a student depends on the student's grade level and program length. The unsubsidized amount the student can borrow is equal to this limit minus the subsidized amount the student borrows. For example, if a dependent student whose loan limit is $2,625 qualifies for a $1,600 subsidized Stafford Loan or Direct Subsidized Loan, he or she may borrow an additional $1,025 ($2,625 minus $1,600) unsubsidized Stafford Loan or Direct Unsubsidized Loan, as long as the total of all aid received does not exceed the student's COA.

Independent student

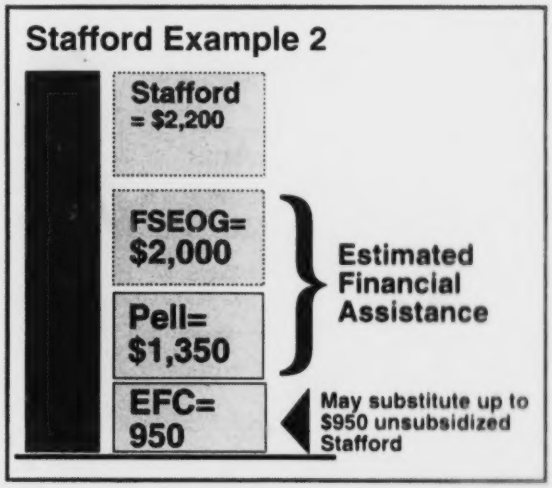
The independent student can also borrow the base amount described above. The mix of subsidized and unsubsidized loans in this base amount depends upon the student's need. The independent student can also borrow an additional **unsubsidized** loan amount, above the base amount. The maximum additional amount is limited to either the total of the student's EFC and remaining need or the applicable additional unsubsidized loan limit, whichever is less. Note that, as for the base amount, there are different loan limits depending on the student's grade level and program length. See Chapters 10 and 11 for a list of all the applicable limits.

A dependent student whose parents are unable to obtain a PLUS or Direct PLUS is also eligible for the additional unsubsidized loan amount that independent students can receive. See Chapters 10 and 11 for more information.

Remember that before the school may certify a Stafford Loan or originate a Direct Loan, the school must have determined the student's eligibility for a Federal Pell Grant. A school does not need to have an official EFC from the CPS to determine the Pell eligibility. Instead, a determination of the student's Pell eligibility could be made through software available at the school. On the other hand, the school **must** have evidence proving that the student's data went through the CPS before the loan may be disbursed.



Suppose an independent student's cost of attendance (COA) is $8,000, EFC is 1500, Pell Grant is $850, veterans benefits is $3,150, and FSEOG is $1,000. The student is eligible for a maximum subsidized Stafford Loan of $1,500. This amount is calculated by subtracting the EFC and the other aid received from the COA ($8,000 -$1,500 -$5,000). Because unsubsidized Stafford Loans are not considered a resource as long as the loan amount does not exceed the EFC, the student would also be eligible for an additional $1,500—the amount equal to the EFC—from this program. In the case of a first-year dependent student, the maximum Stafford Loan that may be borrowed is $2,625. Therefore, a first-year dependent student whose circumstances are the same as our independent student could borrow a $1,125 unsubsidized Stafford Loan, and the parent could borrow the remaining $375 as a PLUS Loan. Or, the parent could borrow the full $1,500 as a PLUS Loan and the student could borrow just a $1,500 subsidized Stafford.



An independent first-year undergraduate student has a cost of attendance of $6,500, an EFC of 950, a Pell Grant of $1,350, and an FSEOG of $2,000. This student has remaining need for subsidized Stafford of $2,200 ($6,500 - $4,300). Because the amount of the unsubsidized loan, up to the amount of the EFC, is not considered a resource, the student may also borrow a $950 unsubsidized Stafford Loan. This would mean that the student's total Stafford loan is $3,150 ($2,200 in subsidized and $950 in unsubsidized loans).

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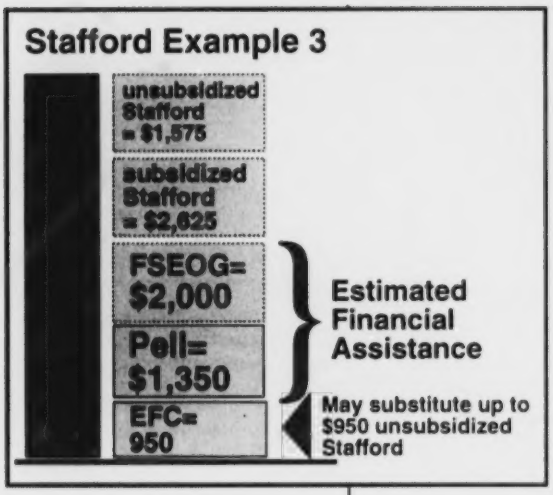
Suppose this student's COA is $8,500 and she has remaining need for a subsidized loan of $4,200. Because the maximum subsidized Stafford Loan for first-year undergraduate students is $2,625, the student would be limited to borrowing that amount under the subsidized program. After borrowing the $2,625, the student still has remaining need for $1,575, **as well as the ability to borrow $950** (the EFC amount). Therefore, the student may borrow a $2,525 unsubsidized Stafford Loan, which increases the total borrowed to $5,150 ($2,625 in subsidized plus $2,525 in unsubsidized loans).



PACKAGING AID

Packaging is the process of finding the best combination of aid to meet a student's financial need, given limited resources and given institutional constraints that vary from school to school. A student may be able to receive some federal student aid—in the form of a Federal Pell Grant—even if his or her school does not, for example, participate in the campus-based programs and does not have its own sources of aid. Any subsidized loan under the FFEL Program or the Direct Loan Program is limited to whichever amount is less: 1) the amount of the student's remaining financial need after his or her estimated financial assistance is taken into account or 2) the loan limit for the student's level and enrollment status. Of course, as explained earlier, the student may also borrow an unsubsidized Stafford, Direct Unsubsidized Loan, PLUS, Direct PLUS, state-sponsored, or private education loan equal to the amount of the EFC. If a school does have other sources of aid, the financial aid administrator must decide how to allocate scarce funds from different sources to meet students' needs.

Variables to consider when packaging aid

The financial aid administrator must evaluate numerous variables when packaging aid and may consider questions such as these: Should priority be given to students who apply for aid first (on a "first-come-first-served" basis)? Should grant assistance be awarded to beginning students and should loans and work-study go to students who have had a chance to adapt to the academic program? If there are not enough funds to meet every student's need, should school policy be to give more assistance to the neediest students? Or should the school meet an equal proportion of each student's need across the board?

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Special considerations

Special considerations in packaging also arise when a student qualifies for both SFA funds and for vocational rehabilitation assistance funds. In that case, the school should determine the student's package exclusive of both the costs related to the student's disability and anticipated vocational rehabilitation assistance. In this way, the student with disabilities will be offered the same aid package as a student who is in the same financial situation but who does not have disabilities; the student with disabilities will also receive the maximum amount of vocational rehabilitation aid to which he or she is entitled.

If, in packaging aid, the school were to consider both the disability-related costs and an anticipated vocational rehabilitation aid amount that was less than those costs, the amount of SFA funds in the student's package might be increased to cover the remaining costs. When the vocational rehabilitation agency actually disburses funds, it will take that SFA increase into consideration and disburse only the smaller anticipated amount rather than disbursing enough to cover all of the disability-related costs. The school has covered all of the student's need in both cases: But if the increase in SFA funds in the second case is the result of an increased loan amount, the school has unnecessarily added to the student's debt burden. Although the vocational rehabilitation funds should not be considered a resource when the school packages, the school must coordinate funds available from the vocational rehabilitation agency and from institutional, state, and federal student financial assistance programs to prevent an overaward. The amount of assistance from the vocational rehabilitation agency must be documented in the student's file.

Each state association of student financial aid administrators has a voluntary agreement with its state vocational rehabilitation agency; this agreement specifies the procedures for coordinating vocational rehabilitation assistance with other forms of financial aid. For information about your state association's agreement, contact that association or a regional office of the U.S. Department of Education.

Makeup of student body may influence packaging policy

The characteristics of a school's academic programs and the makeup of its student body may influence its packaging procedures. Section 9 of the Self-Instructional Modules (formerly produced through contract by the SFA Programs) discusses some of the basic types and philosophies of packaging. Although the modules have not been updated, financial aid administrators may nonetheless find the general discussion of packaging useful. For ideas on different approaches to packaging, also refer to materials prepared by professional associations representing schools and financial aid administrators or consult with other aid administrators at schools that have similar characteristics.

OVERAWARDS

While the school must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded and may result in an overaward. For instance, the student may receive an academic scholarship, or the student may want to extend his or her work-study employment. When these circumstances would lead to an overaward, the school may be required to adjust the federal student aid in the package.

Pell

Pell Grants are never adjusted to take into account other forms of aid.

FFEL and Direct

If a school determines before FFEL or Direct Loan funds (other than PLUS) are delivered to the student that the student will receive an overaward, the school must take certain steps to eliminate the overaward. In general, there is no overaward tolerance for these loans. However, if a student's financial aid package also contains Federal Work-Study (FWS), there is a $300 overaward tolerance for the loan overaward. The school in this case would not have to adjust a Stafford or Direct Loan unless the overaward exceeds $300.

- ◊ If the package includes a unsubsidized Stafford Loan, Direct Unsubsidized Loan, Direct PLUS Loan, PLUS Loan, or nonfederal loan and the aid package does not already apply these loans to finance the EFC, the aid package may be adjusted so that all or some portion of these loans replaces the EFC, thus reducing or eliminating the overaward.

- ◊ The second or subsequent disbursement of a Stafford or Direct Loan can be canceled or reduced. The school must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements.

- ◊ If these adjustments have been made and an overaward still exists for a Stafford Loan or Direct Loan borrower, the school must withhold and promptly return to the lender or the federal government any funds that have not yet been delivered to the borrower. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, the school must return the entire loan proceeds. Note that Stafford and Direct Loan overawards must be repaid before adjusting or canceling campus-based funds.

  - For a Stafford Loan, if the student is ineligible for only a part of the disbursement, the school may return the entire undelivered amount and request a new check for the

correct amount or may choose to return only the amount of aid for which the student becomes ineligible. For example, if a loan disbursement is $1,000 and the amount of the overaward is $800, the school could return just the $800 or could instead return the entire check and have the lender issue a new check for $200. In either case, the school must provide the lender with a written statement describing why the funds were returned, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned. If the school returns the entire amount and asks for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. To return only the amount for which the student is ineligible, the school must have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer (EFT), obtain the student's authorization to release loan funds. The school may then credit the student's account for the amount for which the student is eligible and promptly refund to the lender the portion of the disbursement for the which the student is ineligible.

- For a Direct Loan borrower, the school may choose either to return the amount of loan for which the student becomes ineligible or to cancel the loan, return the full disbursement, and originate a new loan for the lower amount. Consider the Stafford example (with a $1,000 disbursement and an overaward of $800) and apply it to a Direct Loan school. The school could return just the $800 or return the full disbursement, cancel the loan, and originate a new loan for $200. If the school chooses the latter, a new origination record must be created, and a new promissory note must be generated for the student to sign.

◊ The requirement to return overawards does not apply to Stafford Loans made to cover the COA at foreign schools or to PLUS or Direct PLUS Loans.

◊ Although a school is not required to return Stafford Loan or Direct Loan funds that were delivered to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law does not prevent the school from returning funds that were applied to the student account if the school chooses to do so. The borrower who

received funds disbursed directly to him or her is not required to repay funds that were delivered in excess of need unless the overaward was caused by his or her misreporting or withholding of information.

Campus-based

If reducing undisbursed Stafford Loans or Direct Loans is not sufficient to eliminate the overaward, the school may be required to reduce the amount of campus-based aid that has been awarded the student. Campus-based aid need not be reduced if the overaward does not exceed $300, which is the overaward threshold for all campus-based programs. Note that the $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need. (See Chapter 5, Section 2.)

If the overaward cannot be eliminated by reducing future payments of campus-based aid, the student must repay the full amount of the campus-based funds that he or she received in excess of need. However, the student cannot be required to repay FWS wages he or she has earned.

Appendix A: Documenting Citizenship Status

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As authorized by Congress, the SFA Programs are intended to provide needy students with financial aid if the students are 1) U.S. citizens or nationals, 2) permanent residents, 3) certain Pacific Islanders, or 4) persons who intend to become citizens or permanent residents of the United States. To be eligible for SFA funds, a student must prove that he or she qualifies under one of these categories, which are explained here in detail.

This appendix explains when a school is required to document a student's citizenship status and what documents are acceptable as proof of the student's status.[1] Financial aid administrators should bear in mind that required documentation verifying a student's citizenship status must be kept in the school's files until the record retention period expires.

U.S. CITIZEN OR NATIONAL

The term "U.S. citizen" includes citizens of the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands. All U.S. citizens are considered to be U.S. nationals. However, not all nationals are U.S. citizens: Natives of American Samoa and Swain's Island are not U.S. citizens but are nationals and therefore may receive SFA funds.

Generally, students in the U.S. citizen or national category are not required to provide status documentation to receive SFA funds. (Note that if a student leaves the citizenship question blank but provides an A-Number, the CPS will assume the applicant is an eligible noncitizen and will forward the A-Number to the INS to confirm eligibility.)

SSA citizenship match

The Department matches applications with the Social Security Administration (SSA) to verify citizenship status for applicants who report that they are U.S. citizens. All applications for federal student aid are sent to SSA for the match. The applications of those who report themselves as eligible noncitizens and who provide A-Numbers are also sent to the INS match. Results from the INS match take precedence over the results from SSA.

If the SSA cannot match an SSN, name, or date of birth, then the student's citizenship status will not be verified, and the student will receive a comment explaining that his or her citizenship could not be confirmed because of a question about the SSN, name, or date of birth (Comment 62). In this case, the student must provide his or her school with documentation of his or her citizenship. The school determines what constitutes acceptable documentation of citizenship. See the list on the next page for documents the school may choose to accept.

[1] The rules discussed in this chapter regarding documenting citizenship status also apply to the parent(s) borrowing a Federal or Direct PLUS Loan.

If the SSA did not confirm the student's citizenship status, the student receives a comment explaining that the student needs to either provide documents proving citizenship or make a correction to show that he or she is an eligible noncitizen (Comment 146). The output document will also have a "C" next to the EFC. The student must provide the school with documentation substantiating his or her claim to be a citizen or eligible noncitizen. If the student claims to be an eligible noncitizen, he or she must submit a correction, which must include the A-Number.

If the student's status as a citizen or a national must be documented, the following are permissible forms of certification:

Documentation

- ◊ A copy of the student's birth certificate showing that he or she was born in the United States.

- ◊ A copy of Form FS-240 ("Report of Birth Abroad of a Citizen of the United States"), the FS-545 ("Certificate of Birth-Foreign Service"), the DS-1350 ("Certificate of Birth"), or the INS Form G-639 (the Freedom of Information Act Form). The first three forms are generated by the State Department and include an embossed seal with the words "United States of America" and "State Department."

- ◊ A U.S. passport, which may be current or expired. (In the case of nationals who are not citizens, the passport will be stamped "Noncitizen National.")

- ◊ A Certificate of Citizenship from the INS. This certificate must include at least the following information:

  the student's name,
  the certificate number (found in the upper right hand corner), and
  the date the certificate was issued.

- ◊ A Certificate of Naturalization from the INS. This certificate must contain at least

  the student's name,
  the certificate number (found in the upper right hand corner),
  the INS A-Number,
  the name of the court that granted the naturalization, and
  the date of naturalization.

Older versions of the Certificate of Citizenship and of the Certificate of Naturalization advise the holder not to photocopy them. The INS,

however, permits photocopying of these documents if done for lawful purposes (such as applying for SFA funds).

Note that a Social Security card or driver's license is not acceptable for documenting citizenship or national status: Noncitizens and nonnationals may possess these forms of identification.

Citizenship confirmation for U.S. citizens born abroad

Even though students are considered U.S. citizens when born abroad to parents who are U.S. citizens, the SSA database is not automatically updated to indicate the student's status even if the student's birth was registered. Therefore, such students (for example, those born on military bases abroad) will fail the SSA citizenship match until the SSA database is corrected. That is, the applications of U.S. citizens who were born abroad but who file as U.S. citizens are automatically flagged by the SSA as ineligible foreign born, even if the applicant has an SSN.

Such students may document citizenship by providing a "Certificate of Birth Abroad." If the birth of the student was (before he or she reached age 18) registered with the American consulate or embassy in a foreign country, the student can receive a copy of the certificate by contacting

Department of State
Passport Correspondence Branch
1111 19th St. S.W., # 510
Washington, DC 20522-1705

202-955-0737

The student should provide the following information: Name given at birth; date and place of birth; daytime phone number; parents' names and their dates and place(s) of birth; and a $10 check or money order made to the Department of State. Students will receive either form FS-240 or DS-1350. This process takes four to eight weeks. The student may also want to contact SSA about updating its database.

If the student is over 18 and the birth was not registered, she or he can file a self-petition for a "Certificate of Citizenship" to any local U.S. INS office (Form N-600). Proof of parents' U.S. citizenship at the time of the student's birth must be provided.

CITIZENS OF THE PACIFIC ISLANDS

The Compact of Free Association (P.L. 99-329) created three political entities from the former Trust Territory of the Pacific Islands. Two of these entities, the Marshall Islands and the Federated States of Micronesia, voted in 1986 to end political ties with the United States. Citizens of these islands are eligible for Pell Grants, FWS, and FSEOGs but are not eligible for loans.

The third entity, Palau, voted to ratify the compact in 1994; its independence was effective October 1, 1994. Citizens of Palau who enrolled after that date will, like citizens of the Marshall Islands and the Federated States of Micronesia, be eligible for Pell Grants, FWS, and FSEOGs—but not for loans.

Note that the Northern Mariana Islands voted to become a Commonwealth of the United States on November 3, 1986. Citizens of these islands are U.S. citizens and are eligible for all SFA funds on that basis.

Students who are citizens of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau should check Block 2 (indicating eligible noncitizen status) in the citizenship question on the FAFSA and leave the item about the A-Number blank. (If the student doesn't have an SSN, he or she may leave that item blank as well.) As long as the student's file contains consistent information on his or her citizenship, the financial aid administrator is not required to collect documentation.

Pacific Island residents who file through EDExpress may indicate that they are eligible noncitizens, after which their state of legal residence will be confirmed. If they are determined to be residents of the Pacific Islands, they will not be required to provide an A-Number, and EDExpress will not reject their applications.

OTHER ELIGIBLE CATEGORIES

General overview of the matching program

In contrast to citizens, nationals, and Pacific Island citizens—whose documentation is needed only in the restricted instances discussed earlier (for example, when the student's citizenship data are not matched or when the student initially fails to check the box on citizenship)—permanent residents and other eligible noncitizens must always provide documentation on eligibility. For the majority of students, the Department initiates the documentation process by accessing the INS computer database. This computer match, known as Primary Confirmation, produces a comment on the student's output document indicating that the student's status was confirmed, that it was not

confirmed, or that the INS was unable to search its records. If the student's immigration status is confirmed by INS, a comment is printed to that effect on the output document and no further documentation is needed.[2]

Unsuccessful Primary Confirmations occur even when a student is an eligible noncitizen. Primary Confirmation may not confirm the student's status, for example, if the student did not provide enough information when completing the application or if INS did not respond to the Department within 24 hours, as required. Although the student is not automatically ineligible for SFA funds if the match does not confirm the student's status, additional procedures may be necessary to document the student's eligibility. This subsequent paper process is called Secondary Confirmation.

Details about Primary Confirmation

In Primary Confirmation, an applicant's noncitizen information is electronically matched with the database kept by INS. When application data are received by the CPS, identifying information for all noncitizen applicants is transferred electronically to INS's computer. The match is conducted by using the A-Number collected for all students who indicate that they are eligible noncitizens. (The A-Number is a unique number assigned to each legal alien by INS.) INS is responsible for matching this information and electronically transmitting the INS response back to the CPS within 24 hours. The CPS then provides the appropriate comment on the applicant's output document.

Comment 143

If the comment states "Your citizenship status has been confirmed by the Immigration and Naturalization Service (INS) and you meet the citizenship requirements for Federal student aid" (Comment 143), the student's status as an eligible noncitizen has been confirmed. The output document with that comment serves as documentation of the student's eligibility, and the student need not provide further evidence of his or her immigration status.

[2] The process of documenting citizenship status should not be confused with the process of verifying financial and household data. Although verification is required only for students selected by the CPS, documentation of immigration status (either on the output document or on an INS document) is required of all permanent residents and eligible noncitizens other than citizens of Palau, the Federated States of Micronesia, and the Marshall Islands.

There are four cases in which additional documentation is needed. The student must provide further documentation if

Comment 142

1. Primary Confirmation was not attempted because certain key information (e.g., the A-Number) was illegible or blank. In this case, the following comment will appear:

   The Immigration and Naturalization Service (INS) could not confirm your statement that you are an eligible noncitizen because there is a question about your alien registration number. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

   This comment will also appear for citizens of the Marshall Islands, the Federated States of Micronesia, and Palau because such students are eligible noncitizens but would not have A-Numbers to report. Again, these students are not required to provide proof of eligible noncitizen status for the purpose of eligibility determination for SFA funds (see "Citizens of the Pacific Islands" in this appendix).

Comment 144

2. The information needed to perform a match was on the application but did not match the INS database information. In this case, the following comment appears:

   The Immigration and Naturalization Service (INS) did not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

Comment 145

3. The INS was not able to match the student's record within 24 hours or if the computer matching program was not in service. In this case, the following comment will appear:

   Because of processing problems, the Immigration and Naturalization Service (INS) was not able to confirm your statement that you are an eligible noncitizen. You must submit proof of your eligible noncitizen status to your school before you may receive Federal student aid.

Inconsistent information

4. The school has on file conflicting data that cause the school to question the validity of the match. (The General Provisions require that the school resolve any conflicting information before paying the student or certifying a loan application.)

Jay Treaty

There is one unusual circumstance where the school will need to collect documentation from the student but not submit it to the INS for Secondary Confirmation. The Jay Treaty of 1794 (as well as subsequent treaties and U.S. immigration law) gives Canadian-born Native Americans with "50% Indian blood" the legal right to live and work in the United States; such individuals are not subject to the legal restrictions typically imposed on aliens by the INS, are not required to obtain documentation from the INS, and are considered "lawfully admitted for permanent residence."

Because few SFA applicants are eligible under the Jay Treaty, the FAFSA does not include a separate response for such students. Therefore, any student eligible for SFA funds through the Jay Treaty should report that he or she is an "eligible noncitizen" and fill in "A999999999" for the A-Number. The application will not be matched with INS, and Comment 142 (see the previous page) will be printed on the output document. The school must obtain proof that the student has 50% Native American blood and was born in Canada. To do so, the student should provide one or more of the following documents:

- ◊ A "band card" issued by the Band Council of a Canadian Reserve, or by the Department of Indian Affairs in Ottawa.
- ◊ Birth or baptism records.
- ◊ An affidavit from a tribal official or other person knowledgeable about the applicant's or recipient's family history.
- ◊ Identification from a recognized Native American provincial or territorial organization.

If the student can provide one of the above forms of documentation, and is otherwise eligible, the school must document the file and can award SFA funds.

STUDENT RIGHTS WITH RESPECT TO THE COMPUTER MATCH

If the student's citizenship status requires resolution, the school must first ask the student to provide documentation of his or her status. If the documentation provided does not appear to constitute reasonable evidence of eligible noncitizen status, the school may determine the applicant to be ineligible for SFA funds without sending the documentation to INS for verification. On the other hand, if the documents submitted appear to constitute reasonable evidence of eligible noncitizen status, the school must then submit the documentation to INS to verify its correctness. Sending the student's documentation to INS for

verification is a procedure known as Secondary Confirmation, and requires the school to complete a Form G-845S.

Limitations on using results of match to deny aid

The Computer Matching and Privacy Protection Act of 1988 prohibits a school from suspending, terminating, or reducing SFA funds; making a final denial of SFA funds; or taking other adverse action against a student based on the results of an interagency data match unless the student has been notified and has had time to respond to the notification.

As noted on the SAR for any student who must provide further documentation, the student is permitted at least 30 days from the time he or she submits the SAR to provide that documentation. During this period and until the results of the Secondary Confirmation are received, a financial aid administrator may not deny, reduce, or terminate aid to a student. Disbursements may be made to an otherwise eligible student pending the INS response if at least 15 business days have elapsed since the date on which the documentation was submitted to INS. (Of course, the general exclusions for inconsistent data being on file are applicable here.)

Liability

A school is not liable for an error in its determination that a student is an eligible noncitizen if, in making that determination, the school had no conflicting data on file and it relied on 1) an output document indicating that the student meets the requirements for federal student aid, 2) an INS determination of an eligible immigration status in response to a request for Secondary Confirmation, or 3) immigration status documents submitted by the student, if INS did not respond in a timely fashion. The student (or parent for PLUS borrowers) is liable for any SFA funds received if he or she is ineligible. If the school made its determination without having one of these types of documents, the school is held responsible for repaying SFA funds to the Department.

Appeal rights for SFA recipients

The school should establish procedures to ensure that if SFA funds are disbursed and the school subsequently determines (using Secondary Confirmation) that the student recipient is not an eligible noncitizen, the student is provided with a notice of the determination, an opportunity to contest the determination, and notice of the school's final determination. The student may contest the determination by submitting to the school all additional documents the student believes support his or her claims to be an eligible noncitizen. If the documents appear to support the student's claim, the school should submit them to INS using Secondary Confirmation. The school's final determination would be based on the Secondary Confirmation results.

Requirements for notification to students

For every student required to undergo Secondary Confirmation, the school is required to furnish written instructions providing

- ◊ an explanation of the documentation the student must submit as evidence of eligible noncitizen status. (The "Summary Chart of Acceptable Documentation" found at the end of this appendix is acceptable);
- ◊ the institutional deadline for submitting documentation (which must be at least 30 days from the date the school receives the results of the Primary Confirmation) and notification that if the student misses the deadline, he or she may not receive SFA funds for the award period or period of enrollment; and
- ◊ an acknowledgment that no determination of the student's eligibility will be made until an opportunity to submit immigration status documents is provided.

USING THE G-845S FOR SECONDARY CONFIRMATION

If the output document does not confirm the student's status as an eligible noncitizen, the student must provide the school with appropriate documentation (as explained in this appendix) showing that he or she is a permanent resident or other eligible noncitizen. The school must then initiate a Secondary Confirmation of this documentation with INS to ensure validity.

To initiate Secondary Confirmation, the school must complete a Form G-845S. The G-845S ("Document Verification Request") is a standard INS form that is used to ask the File Control Office at INS to confirm that an alien noncitizen's documentation is valid. To complete the G-845S, fill in each item on the top half of the form. The A-Number is provided in the first item; "Education Grant/Loans/Work Study" must be marked in Box 8, "Benefits." You must state your name as the submitting official and the school's name as the submitting agency. Under Item 6, "Verification Number," the school must provide the 13-digit number that is located in the FAA Information section with the match flags. Secondary Confirmation requests sent to INS without Verification Numbers will be returned unprocessed (with one exception discussed below).

No Verification Number

There are two circumstances in which a student will not receive a verification number:

1. **No match was performed due to technical reasons.** If the student did not receive a number because no match was performed due to technical reasons (Comment 145), the aid

administrator must write in large (preferably red) letters at the top of the G-845S "Comment 145 present, Application Processed on _____ [processing date from output document]."

2. **No match was performed because the student failed to provide an alien registration number.** If the match was not performed because the student failed to provide his or her A-Number on the application, the school cannot initiate Secondary Confirmation for the student. Instead, a correction should be submitted with the student's A-Number.

Photocopies of the front and back sides of the student's citizenship document (such as an I-94 with the appropriate stamps or an I-551) must be attached to the Form G-845S. Be sure to submit each pertinent visa and document along with the G-845S. The G-845S is used only to certify the authenticity and identity of immigration documents attached to it; the G-845S must not be submitted to INS by itself for determining a student's eligibility for SFA funds. Therefore, an applicant who has lost documents or surrendered these documents when entering prison is responsible for obtaining copies of these documents before the G-845S is submitted. (See "Replacing Lost INS Documents" in this appendix.) Schools may request copies of immigration documents directly from penal institutions at the request of the applicant. The school must send the completed G-845S and attachments to the File Control Office serving its locale (see the list at the end of this appendix) no more than 10 business days after receiving the documentation from the student.

A status-verifier at the District INS Office will search the applicant's record to confirm the applicant's immigration status. The status-verifier at the INS office completes the "INS Response" section of the G-845S and sends it back to the financial aid administrator, generally within 10 working days of receipt. The Department recommends that the school document its mailings to INS. If the school has not heard from INS, the financial aid administrator may wish to call the INS office to make sure that the G-845S was received. If the school does not receive a determination from INS within 15 working days (10 working days plus 5 days mail time) of the date the school sent the G-845S, the financial aid administrator should review the file to determine whether he or she feels the student meets the citizenship eligibility requirements based on the documentation the student provided and the information in this appendix. If the administrator believes that the student meets the requirements, the school may make any disbursement for which the student is otherwise eligible; the school, however, must note in the student's file that INS exceeded the time allotment and, thus, citizenship eligibility was determined without the benefit of INS verification.

As noted earlier, an applicant who claims to be a permanent resident but whose status was not confirmed through Primary Confirmation must provide copies of his or her INS documents (as described below). The following is a discussion of the acceptable documents to accompany the G-845S.

Standard documentation

The standard documentation for a permanent resident of the United States is the Alien Registration Receipt Card (Form I-151 or Form I-551). Both forms are referred to colloquially as "green cards," although the newly issued forms are most often white with blue or pink wavy lines. The INS is replacing cards issued before 1979 with these new, counterfeit-resistant cards. The deadline established for permanent residents to replace their old cards was March 20, 1996. However, the older Form I-151 cards remain acceptable as evidence of permanent residence for the purpose of receiving SFA funds. A passport or an I-94 is also acceptable if it has one of the following stamps:

- A passport stamped "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until _____. Employment Authorized."

- A Departure Record (form I-94) stamped as above or stamped "Temporary Form I-551. Admission for permanent residence at _____[port] on _____ [date] verified. _____ [signature of issuing officer] _____ [title]." This Form I-94 will also contain the individual's photo and an INS seal over the photo and the stamp.

Special Circumstances

I-551 with baby picture

If the student has an I-551 with a baby picture, the financial aid administrator should suggest that the student update the I-551 with INS. Permanent residents are expected to obtain a new picture and to be fingerprinted at the age of 14. However, the school may submit the documents to INS and ultimately pay a student who has an I-551 with a baby picture, as long as the school can confirm that the I-551 belongs to the student. This confirmation may be accomplished by comparing the I-551 to a current photo ID that has the student's name, date of birth, and signature. (The current photo ID must also be consistent with any identifying information in the student's file at the school.)

Applicants for permanent residence

A student who has an approved application for permanent residence on file with INS and who is waiting for an Alien Registration Receipt Card may not have proof of his or her citizenship status. The financial aid administrator should advise such a student to contact his or her local INS office for the passport stamp or I-94 stamp described above, as these are available to the student before the normal permanent-residency documentation is issued. Note that an **application** for permanent-resident status is not sufficient for determining eligibility for SFA funds.

Conditional permanent resident

The Marriage Fraud Amendments established a two-year conditional permanent-residence status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent-residence status if the marriage took place less than two years before the spouse applied for permanent-residence status or citizenship. This status may also apply to any of the spouse's children who are aliens.

An alien who is granted conditional permanent-residence status will be given a Form I-551. This form is the same I-551 that is issued to regular permanent residents, except that the card will have a "C" (for "conditional") on the front and an expiration date on the back. Once the two-year period expires, a conditional permanent resident must file a petition for removal of this restriction within 90 days after the end of that period. The alien's petition will then be reviewed. If the results of the review are satisfactory, the restriction will be dropped, and new documents will be issued. Conditional permanent residents holding an I-551 with a valid expiration date are eligible to receive aid under the SFA Programs.

DOCUMENTATION FOR OTHER CATEGORIES OF ELIGIBLE NONCITIZENS

Procedures for a student who belongs to another category of eligible noncitizens (such as a refugee, asylee, or parolee) and for whom Primary Confirmation did not confirm his or her citizenship status are similar to those just described for the permanent resident. The applicant must provide copies of his or her INS documents (as described below). A school must then initiate Secondary Confirmation of these documents by using the G-845S.

For humanitarian reasons, a student who has been designated by INS as lawfully present in the United States for other than temporary purposes is considered eligible for aid from the SFA Programs. Evidence of this lawful

presence is given on the departure record (Form I-94). The I-94 departure record will contain one of the following:

Refugee

◊ A stamp indicating that the student has been admitted to the United States as a refugee. This stamp will read either "Admitted as a Refugee Pursuant to Section 207 of the Act. If you depart the United States you will need prior permission to return. Employment Authorized," or "Status changed to refugee pursuant to Section 207 (c)(2) of the Immigration Nationality Act, on _____. Employment Authorized."

Asylee

◊ A stamp indicating that the student has been granted asylum in the United States. This stamp will read "Asylum status granted pursuant to Section 208, INS. Valid to _____. Employment Authorized." Persons who have been granted asylum in the United States are given employment authorization for one year. At the end of that year, they are eligible to apply for permanent residence. Asylum status continues unless revoked by INS or until permanent residence status is granted.

Note that a refugee or an asylee may apply for permanent-resident status. During the period in which the application is being reviewed, the student must surrender his or her original I-94 to INS. INS will give the student a copy of the original I-94, which will include the endorsement "209a (or 209b) pending. Employment Authorized." Students with this form of documentation are eligible for SFA funds.

Conditional entrant

◊ A stamp indicating that the student has been admitted to the United States as a conditional entrant. Although this status remains valid, INS stopped using this category on March 31, 1980. Therefore, if the school does not hear from INS within the permissible time frame, the school should not disburse to a student who shows an I-94 with conditional-entrant status granted after March 31, 1980.

Parolee

◊ A stamp indicating that the student has been paroled into the United States for an indefinite period of time for humanitarian reasons. The word "indefinite" and/or "humanitarian" will be handwritten into the stamp.

Cuban-Haitian

◊ A stamp across the face of the I-94 indicating that the student has been classified as a "Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981." Note that a document showing that the

holder is a Cuban-Haitian entrant is valid even if the expiration date would make the document appear to be no longer valid.

The I-94 for some Cuban-Haitian entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Or the student may instead be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because the application for permanent residence is not sufficient to make a student eligible for SFA funds, a student who is a Cuban-Haitian entrant must request documentation of that status from INS.

Suspension of deportation

If a person is applying to suspend deportation, he or she must request a hearing before an Immigration Law judge who will render an oral or written decision. If the decision is favorable, INS will give the applicant a Form I-551, which will certify his or her lawful permanent-resident status. Therefore, there is no special category for persons who have been granted suspensions of deportation.

Family unity status

An approved Form I-797, "Application for Voluntary Departure Under the Family Unity Program," indicates that the student has been granted relief from deportation under the Family Unity Program. As a result of changes made by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, enacted August 22,1996, this is no longer an eligible status.

IRCA

The Immigration Reform and Control Act of 1986 (IRCA) made it possible for certain categories of aliens to receive temporary-resident status and eventually permanent-resident status. These categories included aliens who 1) entered the United States illegally before January 1, 1982, resided continuously in the United States between that date and the date they applied for temporary-resident status, and met certain other eligibility requirements or 2) performed qualifying agricultural employment in the United States during defined periods and met certain other eligibility requirements. This legalization program was colloquially called the amnesty program.

An alien who was eligible for temporary-resident status under IRCA and applied to an INS office was issued an Employment Authorization Card (Form I-688A), which permitted an eligible alien to work legally in the United States while his or her application was being processed. Although the deadline for applying for amnesty under Section 245 of IRCA has expired, some students may still hold amnesty-related statuses if their cases are being disputed in one of several lawsuits. A student who has a Form I-688A is not eligible for SFA funds. These forms expired six months from the date of issue. Except for those applicants whose cases are still being disputed, some time during the six-month effective

period of the Form I-688A, the holder should have been notified whether the application for temporary-resident status was approved.

The next step in the amnesty process was the issuing of the interim Form I-688B or the I-766. These Employment Authorization Documents (EAD) are used for employment authorization purposes only. None of these documents (I-688A, I-688B, or the I-766) is sufficient by themselves to qualify the student for SFA eligibility.

Temporary Resident Card

If the application for temporary-resident status was approved, the applicant would have received the Temporary Resident Card (Form I-688), popularly called a "red card," which has an expiration date. Due to changes made by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, students with this status are no longer eligible for SFA funds.

Student visas, etc., are not acceptable

A student with an F-1 or F-2 Student Visa; a J-1 or J-2 Exchange Visitors Visa; L-1; or a G series Visa (pertaining to international organizations) is not eligible to apply for SFA funds unless he or she has a Form I-94 with one of the endorsements listed earlier. Also, someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive SFA funds.

Temporary protective status not eligible

Some students may present Forms I-94 stamped "Temporary Protected Status." This status is used for persons who are from countries that are in upheaval, but the status differs significantly from "Refugee" or "Asylum" because it provides no conversion to permanent-resident status. A student with this status is **not** eligible for SFA funds.

Stamp and validation

Each of the documents described above will be stamped in a rust-colored ink. It will normally contain a validation indicating the office of issuance and a code that indicates what officer prepared the document. Examples of codes are "WAS-82" (Washington District Office, Officer Number 82) or "1/13/84 SPO.KD" (Spokane Office, officer's initials KD).

The school must keep in the student's file a copy of the citizenship documentation the student submits, along with the G-845S results. Documentation provided as proof of the student's citizenship status (such as the Alien Registration Receipt Card and the Departure Record) may legally be photocopied by the student, as long as the photocopies are made for this lawful purpose. The student must understand that he or she is permitted to photocopy an INS document **only** for lawful purposes such as applying for SFA funds. (Document photocopying is generally not permitted even for other purposes.)

Financial aid administrators must always examine and copy original documents. Sometimes the endorsement (a stamp) does not photocopy

well due to the ink color on the original document. In this case, the financial aid administrator should hand copy the exact endorsement on the photocopy. Because the endorsement can be placed anywhere on the I-94, the endorsement may be difficult to locate. Note that although the endorsement may appear on the student's passport, the endorsement **must also** be on the I-94. INS offices do not have uniform procedures or stamps. The school should contact the local INS office with questions regarding acceptable citizenship documentation.

INTERPRETING THE G-845S

A single form, INS Form G-845S, is used both for the financial aid administrator's request for a Secondary Confirmation and for INS to respond to the school's request. In reviewing INS's response, bear in mind that the G-845S reflects the student's most recent status with INS and, thus, may show a different status than the documentation presented by the student. In this case, the school should verify that both documents identify the same person. If so, the status on the G-845S should be used since that status is the most current.

The following are possible INS responses and consequent implications with respect to student eligibility. Next to each item, we have indicated whether a check in this block by INS indicates

- ◊ eligibility, in which case payments to the student may be made;
- ◊ ineligibility, in which case the student is not eligible for payment unless the student later provides other valid documentation from INS showing that he or she is an eligible noncitizen; or
- ◊ inconclusive eligibility, in which case the financial aid administrator must examine any other boxes checked by INS to determine whether payment can be made. A check in such a box does not indicate eligibility or ineligibility.

Permanent resident (eligible)

1. This document appears valid and relates to a Lawful Permanent Resident alien of the United States. Block #1 is checked when the documentation submitted is determined to be a valid I-551, I-151, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence."[3] Immigration law allows this person to live and work in the United States on a permanent basis.

[3] The term "temporary" as used here refers to the documentary evidence. It is not intended to imply that the immigration status itself is temporary.

2. This document appears valid and relates to a Conditional Resident alien of the United States. This is checked when the documentation submitted is determined to be a valid I-551, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence." Immigration law allows this person to live and work in the United States; however, INS will reevaluate the person's status within two years. Conditional resident-alien status is granted to an alien who marries a U.S. citizen or national or permanent-resident alien; a conditional resident must remain married to that spouse for two years to maintain resident status.

Conditional resident (eligible)

3. This document appears valid and relates to an alien authorized employment as indicated below. This is checked to indicate whether the authorization covers full-time or part-time employment and when, if applicable, the period of employment will expire. "Indefinite" will be indicated if there is no specific expiration date for employment eligibility. Employment authorization by itself does not mean that the student is eligible for SFA funds.

Authorized employment (inconclusive eligibility)

4. This document appears valid and relates to an alien who has an application pending for...: This is checked when an alien is waiting for a new immigration status or a change of immigration status. If a change of status is pending, the appropriate block indicating the current status will also be checked elsewhere on the G-845S. A pending application for an immigration status does not (by itself) render the student eligible for SFA funds.

Application pending (inconclusive eligibility)

5. This document relates to an alien having been granted asylum/ refugee status in the United States: This is checked when an alien has been granted asylum or refugee status in the United States because of persecution or because of a well-founded fear of persecution in his or her country of nationality. These statuses are considered temporary. Documentation presented may include either Form I-94 stamped with "Section 207-Refugee" or "Section 208-Asylee" or a Refugee Travel Document (Form I-571).

Asylum/ refugee status (eligible)

6. This document appears valid and relates to an alien paroled into the United States pursuant to Section 212 of the I&N Act: This is checked for an alien who has been allowed to enter the United States under emergency conditions or under the determination that his or her entry is in the public interest. This status is temporary. Documentation presented may include Form I-94 stamped with "Section 212(d)(5) - Parolee."

Parolee (eligible)

Cuban-Haitian entrant (eligible)

7. This document appears valid and relates to an alien who is a Cuban-Haitian entrant: This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980 and Haitians who entered the country illegally before January 1, 1981.

Conditional entrant (eligible)

8. This document appears valid and relates to an alien who is a conditional entrant: This is checked to indicate a refugee who entered the United States under the seventh preference category of P.L. 89-236 or whose status was adjusted to lawful permanent-resident alien under that category. Documentation presented may include Form I-94 stamped with "Section 203(a)(7)." This status was defined by Section 203(a)(7) of the Immigration and Nationality Act but was later abolished by the Refugee Act of 1980. Noncitizens who fall into this category had to have entered the United States prior to the enactment of the Refugee Act of 1980.

Alien nonimmigrant (ineligible)

9. This document appears valid and relates to an alien who is a nonimmigrant. This is checked to indicate an alien who is temporarily in the United States for a specific purpose. This category includes students, visitors, and foreign government officials. Documentation presented may include the Form I-94.

Employment unauthorized (ineligible)

10. This document appears valid and relates to an alien not authorized employment in the United States: This block is checked when an alien's status prohibits employment in the United States.

Searching indices (inconclusive)

11. Continue to process as legal alien. INS is searching indices for further information. This block is checked if INS is withholding judgment, pending further investigation on the status or validity of documentation. This statement does not imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits should not be denied on the basis of this statement.

The student's documentation should be accepted at face value until INS sends final notification regarding immigration status. If the student appears to be an eligible noncitizen based upon the school's review of the documents, the school may pay the student any SFA funds for which he or she is eligible. If INS later notifies the school that the student's documentation is not valid, the school must cancel further disbursements but is not liable for the payments already made.

Invalid documentation (ineligible)

12. This document is not valid because it appears to be...: This is checked when the documentation presented has expired or when an item appears to be counterfeit or altered (there are checkboxes used to indicate which of these apply). Notify the student that unless corrective action is taken with INS, the case will be submitted to the Office of Inspector General (OIG). Additional communication with INS will allow any unfortunate mistakes in the status-verifier's review to be corrected. Until this discrepancy is

resolved, no further aid may be disbursed, awarded, or certified. If the student does not take corrective action in a timely manner, the case must be reported to the OIG.

The INS will initial and stamp the front of the G-845S in the signature block.

Comments on back of G-845S

The comments block on the back of the G-845S provides further instructions. The intended meaning of each of the following blocks that may be checked follows:

13. **No determination can be made from the information submitted. Please obtain a copy of the original alien registration documentation and resubmit.** This is normally checked when the financial aid administrator has failed to provide copies of any of the INS documents. The statement is often accompanied by a listing of acceptable forms of documentation. The financial aid administrator should resubmit the G-845S with copies of the original alien documentation.

14. **No determination can be made without seeing both sides of the document submitted.** Resubmit the G-845S with copies of both sides of each document.

15. **Copy of document is not readable.** Resubmit the G-845S with higher quality copies of the original alien documentation.

The comments listed under "Permanently Residing Under Color of Law" (PRUCOL) reflect information about aliens who have applied for special treatment (for example, by virtue of having life-threatening medical situations) that may cause INS to refrain from seeking their expulsion. These blocks will be checked only if a request for evaluation for PRUCOL is made in Block 8 on the first page of the G-845S. Comments will rarely be made in this section because the financial aid administrator would not have asked for a PRUCOL evaluation when submitting the G-845S. However, in all cases, INS should check other responses on the form as well, and these other responses should be used in the determination of the student's status. Therefore, any INS response to Items 16 and 17 indicates **inconclusive eligibility**.

Reconciling discrepancy

When Secondary Confirmation results in an eligible status, the G-845S must be maintained by the school. If a discrepancy is discovered as a result of the INS response, the school must notify the student that he or she must correct the discrepancy with INS and that no certification of loans or further disbursement of funds can be made until the discrepancy is corrected. If the discrepancy is not reconciled with INS, the student

must repay all aid except wages earned under FWS. Whenever the student is able to provide new information, it must be submitted to INS on a new G-845S form.

As long as the school has followed the procedures outlined here, including notifying the student of the discrepancy and withholding further payments and loan certifications as soon as a discrepancy is found, the school is not liable for aid disbursed prior to Secondary Confirmation. (This, of course, assumes that the school had no other conflicting information prior to making the disbursement and had reviewed the documentation and felt on that basis that the student was eligible.)

UPDATING ELIGIBLE NONCITIZEN STATUS IN LATER AWARD YEARS

There are several cases in which the school must verify a student's citizenship in a subsequent award year if that student again does not receive Primary Confirmation through the application process.

Updating the Temporary Form I-551

A student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year and, thus, should not still be holding a temporary card. The school should refer the student to INS to obtain a permanent I-551 or an updated endorsement on the previous card. The documents should also be submitted to INS on a G-845S.

The school must also document the eligible noncitizen status each award year and obtain Secondary Confirmation if Primary Confirmation has not produced a match for a conditional permanent resident, a refugee, a Cuban-Haitian entrant, or a person granted asylum. Students in any of these categories may have been adjusted to permanent-resident status or may have had their statuses revoked.

The school does not have to perform Secondary Confirmation to document a student's eligible noncitizen status in subsequent award years if the school previously documented that the student is a U.S. citizen or national; is a citizen of the Republic of Palau, the Federated States of Micronesia or the Marshall Islands; or has a Form I-551 or I-151.

34 CFR 668.133 (b)

In addition, the school is not required to perform Secondary Confirmation if in a previous award year a school determined the student to be an eligible noncitizen through Secondary Confirmation and the documents used for that Secondary Confirmation have not expired. The school must also have no conflicting information or reason to doubt the student's claim of having eligible noncitizen status. Also note that the school must have **confirmed the status** in a previous award year. (The school may not disburse aid just because INS did not respond.)

REPLACING LOST INS DOCUMENTS

If a student cannot locate his or her official INS documentation, the student must request that the documents be replaced because immigrants are required to have–in their possession–documentation verifying their statuses. Requests for replacement documents should be made to the INS District Office that issued the original documents. (See the addresses at the end of this appendix.)

The student will be asked to complete a Form I-90, "Application to Replace Lost Documents." A temporary I-94 may be issued while the replacement documents are pending.

In cases of the student's undue hardship, in which the student urgently needs documentation of his or her status, the Freedom of Information (FOI) Act allows the student to obtain photocopies of the documents from the INS District Office that issued the original documents. The student may submit an INS Form G-639 to make this request or may simply send a letter to the district office. If the student is not sure which district office issued the original documents, he or she may submit the request to the FOI office in Washington, DC. (See addresses at the end of this appendix.)

ADDITIONAL INFORMATION

On the following pages, we have included several reference materials that may prove helpful:

1. A summary chart of the documentation requirements discussed in this appendix;

2. Examples of the principal types of documentation discussed in this appendix;

3. A copy of the G-845S. This may be photocopied and used for submission to INS;

4. A glossary of terms used in processing applications for noncitizens; and

5. A list of INS offices and addresses.

SUMMARY CHART OF ACCEPTABLE DOCUMENTATION

As an alternative for a student who is having trouble obtaining replacement INS documents, the student may use a G-639 to request photocopies of the original documentation.

CITIZEN NOT BORN IN UNITED STATES	
Certificate of Citizenship	Must have student's name, certificate number, and the date the certificate was issued.
Certificate of Naturalization	Must have student's name, certificate number, Alien Registration Number, name of the court (and date) where naturalization occurred.
"Certification of Birth Abroad" Form FS-545, DS-1350, or FS-240, "Report of Birth Abroad"	Must have embossed seal "United States of America" and "State Department."
U.S. Passport	
NONCITIZEN NATIONAL	
U.S. Passport	**Must be stamped "Noncitizen National."**
PERMANENT RESIDENT	
"Alien Registration Receipt Card" Form I-151, I-551, or I-551C	The I-551C must have a currently valid expiration date.
Passport	Must be stamped "Processed for I-551" with expiration date.
I-94	Must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.
OTHER ELIGIBLE NONCITIZEN	
"Arrival-Departure Record" Form I-94	Must be stamped as a Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, Cuban-Haitian Entrant.

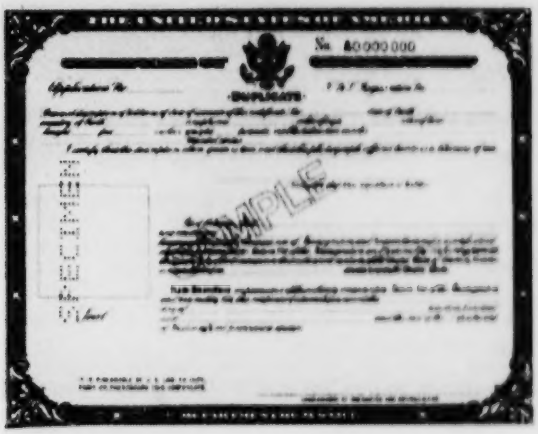
BEST COPY AVAILABLE

U.S. Passport

Can be used to document citizenship for citizen born abroad.

For noncitizen national — must be stamped "Noncitizen National"

(Note that a passport issued by another country may be used to document permanent resident status, if it has the endorsement "Processed for I-551" and has a currently valid expiration date.)

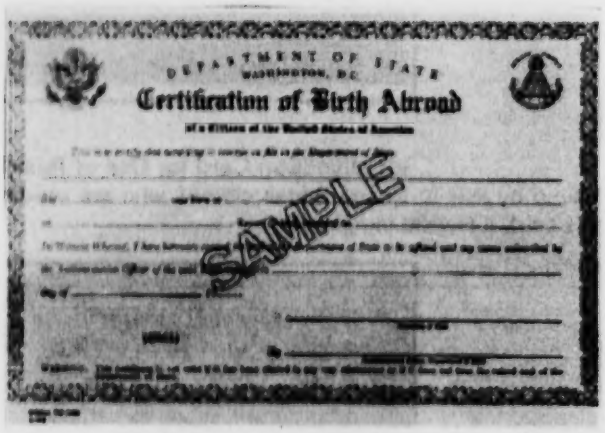


Certificate of Citizenship

The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s); who became citizens when their parents were naturalized; or who were adopted by U.S. parents.

Certification of Birth Abroad

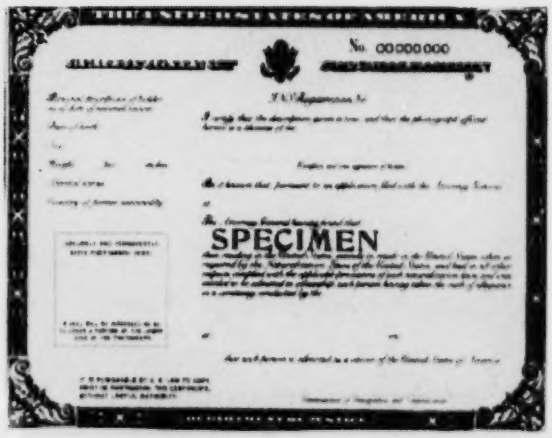
Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.



BEST COPY AVAILABLE

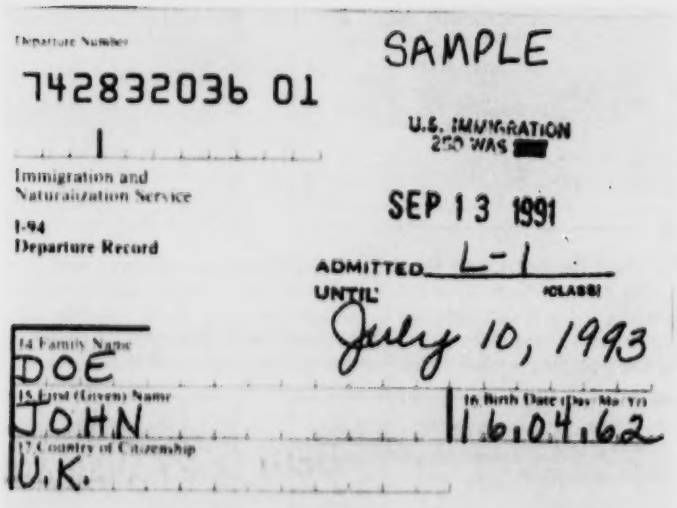
Certificate of Naturalization

The Certificate of Naturalization is issued to naturalized U.S. citizens.



A revised version of the Certificate of Naturalization is issued to citizens who file for naturalization after October 1, 1991.

PERMANENT RESIDENT/OTHER ELIGIBLE NONCITIZEN

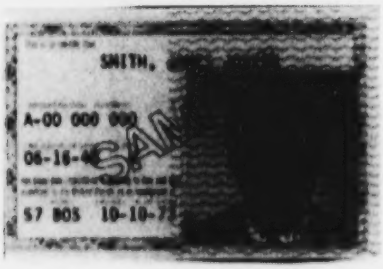


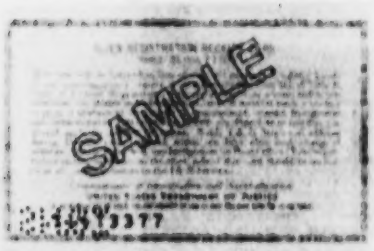
I-94 Arrival-Departure Record

For permanent resident status—must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.

For other eligible noncitizens—must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolée, Cuban-Haitian Entrant.

BEST COPY AVAILABLE





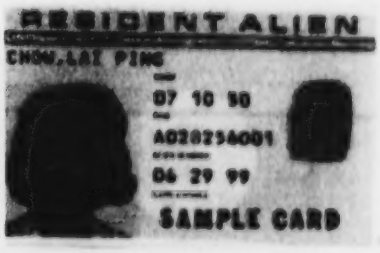
Alien Registration Receipt Card I-151

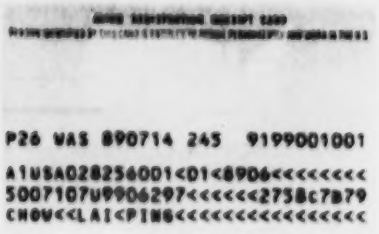
Issued prior to June 1978 to permanent residents. No longer issued, but valid indefinitely. Often referred to as a "green card," though it is not always green.

Alien Registration Receipt Card I-551 (Resident Alien Card)

Issued to permanent residents. The I-551 is a revised version of the I-151. Often referred to as a "green card," though it is not always green.

The "Conditional Resident Alien Card" is an I-551 that is issued to conditional permanent residents such as alien spouses. This card is identified by a "C" on the front, and has an expiration date on the back.





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U.S. Department of Justice
Immigration and Naturalization Service

SAVE

OMB #1115-0122
Document Verification Request

Section A - *to be completed by the submitting agency.*

To: Immigration and Naturalization Service

6. Verification Number

7. ☐ Photocopy of Document Attached.
(If printed on both sides, attach a copy of the front and of the back.)
☐ Other Information Attached *(Specify documents).*

From: Typed or Stamped Name and Address of Submitting Agency

Attn: Status Verifier
(INS may use above address with a #20 window envelope.)

8. *(Benefit)*	*(Your Case Number)*
☐ AFDC	
☐ Education Grant/Loans/Workstudy	
☐ Food Stamp	
☐ Housing Assistance	
☐ Medicaid/Medical Assistance	
☐ Unemployment Insurance	
☐ Employment Authorization	
☐ **Other** *(specify)*	

1. Alien Registration or I-94 Number
2. Applicant's Name *(Last, First, Middle)*
3. Nationality
4. Date of Birth *(Month/Day/Year)*
5. Social Security Number

9. Name of Submitting Official
10. Title of Submitting Official
11. Date
12. Telephone Number

Section B - *to be completed by INS*

INS RESPONSE: From the documents or information submitted and/or a review of our records we find that:

1. ☐ This document appears valid and relates to a **Lawful Permanent Resident alien** of the United States.
2. ☐ This document appears valid and relates to a **Conditional Resident alien** of the United States.
3. ☐ This document appears valid and relates to an alien **authorized employment** as indicated below:
   a. ☐ Full-Time
   b. ☐ Part-Time
   c. ☐ No Expiration (Indefinite)
   d. ☐ Expires on *(specify Month/Day/Year, below)*
4. ☐ This document appears valid and relates to an alien who has an application pending for *(specify INS benefit below)*
5. ☐ This document relates to an alien having been **granted asylum/refugee** status in the United States.
6. ☐ This document appears valid and relates to an alien **paroled** into the United States pursuant to Section 212 of the I&N Act.
7. ☐ This document appears valid and relates to an alien who is a **Cuban/Haitian entrant**.
8. ☐ This document appears valid and relates to an alien who is a **conditional entrant**.
9. ☐ This document appears valid and relates to an alien who is a **nonimmigrant** *(specify type or class below)*
10. ☐ This document appears valid and relates to an alien **not authorized employment** in the United States.
11. ☐ Continue to process as legal alien. INS is searching indices for further information.
12. ☐ This document is **not valid** because it appears to be *(check all that apply)*
    a. ☐ Expired
    b. ☐ Altered
    c. ☐ Counterfeit

INS Stamp

Please see reverse for additional comments.

Form G-845S (Rev. 06/06/89) Y

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Comments

13. ☐ No determination can be made from the information submitted. Please obtain a copy of the **original** alien registration documentation and resubmit.

14. ☐ No determination can be made without seeing **both** sides of the document submitted *(please resubmit request).*

15. ☐ Copy of document is not readable *(please resubmit request).*

"PRUCOL"

For Purposes Of Determining If Alien Is Permanently Residing Under Color Of Law Only!

16. ☐ INS actively pursues the expulsion of an alien in this class/category.

17. ☐ INS **is not** actively pursuing the expulsion of an alien in this class/category, at this time.

18. ☐ Other

Instructions

- **Submit copies of both** *front and back* **of alien's original documentation.**
- **Make certain a** *complete return address* **has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of (7) or (8) digits. Also in this block may be recorded the number found on Form I-94. (Check the front and back of the I-94 document and if the "A" Number appears, record that number when requesting information instead of the longer admission number as the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without copies of applicant's original documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the Immigration and Naturalization Service.

GLOSSARY

You may encounter several unfamiliar terms in processing applications from noncitizens. The definitions in this glossary are informational in nature and should not be used for any other purpose. They do not represent any formal source or policy of INS. Official definitions have been shortened or edited whenever possible.

Alien: Any person who is not a citizen or national of the United States.

Alien File (A-file): The history file containing all data and documentation pertaining to an individual alien. An A-file is created or amended when any one of several actions occurs: for example, when applications for permanent resident status or for a Certificate of Citizenship are submitted. Alien Registration Numbers (A-Numbers) are assigned at the local File Control Office (FCO) processing the initial action.

Alien Registration Number (A-Number): An eight- or nine-digit number assigned to an alien at the time the alien file is created.

Alien Status Verification Index (ASVI): A database designed for the use of entitlement benefit agencies in verifying alien immigration status in accordance with the Immigration Reform and Control Act of 1986 (IRCA). The database is commonly known as "SAVE."

Asylee: An alien, already in the United States or at a port of entry, who is granted asylum in the United States. Asylum may be granted to those persons who are unable or unwilling to return to their countries of nationality, or who seek protection because of persecution or a well-founded fear of persecution upon returning to their countries. Asylum is covered by Section 212 of the Immigration and Nationality Act of 1952 (I&NA). (See also the definition for refugee.)

Central Index System (CIS): An automated system containing information about aliens. The CIS, from which SAVE is extracted, is INS' most complete database on aliens in the United States.

Certificate of Citizenship: An identity document proving U.S. citizenship.

Certificate of Naturalization: An identity document proving U.S. citizenship.

Change to Nonimmigrant Status: The act of changing a nonimmigrant's classification (for example, changing from visitor to student status).

Citizen: A person born in a country or who has become a naturalized citizen of that country.

Conditional Entrant: A refugee. (See definition for refugee.)

Conditional Resident Alien: An alien granted a two-year period of permanent resident status based on a "qualifying" marriage to a U.S. citizen, national, or permanent resident alien. Children of a U.S. citizen, national, or permanent resident alien also may have this status. The conditional status may be removed after two years if INS rules favorably on granting lawful permanent resident status to the alien.

Cuban-Haitian Entrant: The status afforded to (a) Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980, and (b) Haitians who entered the country illegally before January 1, 1981. This status is covered by Section 502(e) of the Immigration and Nationality Act.

Document Verification Request (Form G-845S): A form designed to request secondary confirmation of alien status from INS under the Immigration Reform and Control Act of 1986.

Documented Alien: An alien who is in the United States and who is in possession of valid documents.

File Control Office (FCO): An INS field office where alien files are maintained.

Green Card: A slang term describing the Alien Registration Receipt Card (Form I-151 or Form I-551). Many versions of these forms are not green in color.

Illegal Alien: A foreign national (a) who entered the United States without inspection or with fraudulent documentation or (b) who, after entering legally as a nonimmigrant, violated status and remained in the United States without authorization. (See also definition for *undocumented alien*.)

Immigrant: An alien who has been lawfully afforded the privilege of residing permanently in the United States. His or her status allows authorization for work and entitlement benefits. (See also definitions for *lawful permanent resident alien* and *permanent resident alien*.)

Immigrant Visa: A document issued by a U.S. Consul abroad, which authorizes an alien to apply for admission as an immigrant to the United States.

Immigration and Nationality Act of 1952 (I&NA): Legislation that defined most immigration statuses now in use and that helped form the basis for U.S. immigration law and policies.

Immigration Reform and Control Act of 1986 (IRCA): Legislation that was passed to deter illegal immigration to the United States; the legislation uses employer sanctions and status verification and allows the legalization of specific groups of aliens.

Immigration Status: The legal status conferred on an alien by immigration law.

Immigration Status Verifier (ISV): An INS employee or contractor that performs secondary verification duties at local INS File Control Offices.

Lawful Permanent Resident Alien: An alien who has been lawfully afforded the privilege of residing permanently in the United States. (See also definitions for *immigrant* and *permanent resident alien*.)

Legalization: A program whereby an illegal alien could receive amnesty and adjustment of his or her immigration status to that of a temporary resident. The alien was required to establish proof of entry prior to January 1, 1982, and continuous unlawful residence since that time. This program is covered by section 245(A) (c)(5) of IRCA.

Nationality: The state or country to which a person owes allegiance. Note that the country of birth does not necessarily correspond to the nationality.

Naturalization: The conferring of nationality of a state or country upon a person who has been born under allegiance to another nation.

Nonimmigrant: An alien who seeks temporary entry to the United States for a specific purpose. This category includes foreign government officials, visitors for business and pleasure, and students. Some nonimmigrants have specialized employment privileges (for example, foreign nationals who are employees of the U.S. office of a foreign-owned company).

Nonimmigrant Information System (NIS): INS on-line files that store information on nonimmigrants in the United States, such as foreign visitors, government personnel, and ship and flight crews.

Parolee: An alien who appears to be inadmissible to the inspecting officer but who is allowed to enter the United States either under emergency conditions or under a determination that the alien's entry is determined to be in the public interest. Although parolees are required to leave when the conditions supporting their parole cease to exist, they may sometimes adjust immigration status to asylee. Parolee status is covered by Section 212 of the I&NA.

Passport: Any travel document issued by competent authority showing the bearer's origin, identity, and nationality which is valid for the entry of the bearer into a foreign country.

Permanent Resident Alien: A person who enters the country with an immigrant visa or adjusts his status after entering as a nonimmigrant, refugee, or asylee. Persons with this status are entitled to live and work in the United States and collect entitlement benefits, if qualified. (See also definitions for *immigrant* and *lawful permanent resident*.)

Primary Confirmation: A query to confirm alien documentation using the ASVI database.

PRUCOL: A person permanently residing in the United States under color of law. This is not a status as defined by the I&NA of 1952, and persons residing under this status are not eligible for SFA funds.

Refugee: Any person who is outside his country of nationality and who is unable or unwilling to return to that country because of persecution or a well-founded fear of persecution. Unlike asylees, refugees apply for and receive this status prior to entry into the United States. This status is covered by Section 207 (formerly Section 203(a)(7)) of the I&NA. (See also definition for *asylee*.)

Refugee Conditional Entrant: An alien who entered the United States or who adjusted his or her status to Lawful Permanent Resident under the seventh preference category of Public Law 89-236, which was enacted in 1965. This status was established by Section 203 (a)(7) of the I&NA, but was abolished by the Refugee Act of 1980 (Public Law 96-212).

Secondary Confirmation: A request to validate alien documentation, using Form G-845S, after Primary Confirmation has been attempted. Secondary Confirmation is performed by the immigration status verifier, using various automated and manual sources.

Special Agricultural Worker (SAW): This was part of the legalization program in which an alien who had resided in the United States and performed agricultural labor for at least 90 person-days during the one year period prior to May 1, 1986 could apply for temporary lawful resident alien status. The SAW status was limited to the first 350,000 aliens that applied. Although most successful applicants have now been converted to permanent resident status, there are a limited number of pending cases, who may have I-688, I-688A or I-688B status. See the description in the text for the eligibility of these statuses.

Student/Schools System (STSC): INS's on-line file that contains information on foreign students in U.S. academic and vocational educational institutions.

Systematic Alien Verification for Entitlements (SAVE): An automated or manual information sharing program whereby institutions can certify the immigration status of alien applicants for federal student financial aid. (See also *Alien Status Verification Index*.)

Temporary Lawful Resident Alien: An alien granted a one-year period of lawful resident status based on his or her qualifications under the legalization or SAW programs. The temporary status may be removed after one year, when INS rules favorably or unfavorably on granting permanent resident status to the alien.

Undocumented Alien: An alien in the United States without proper documentation. He or she is in violation of U.S. immigration law. (See also definition for *illegal alien*.)

United States: Defined in a geographic sense as the continental United States, Alaska, Hawaii, Puerto Rico, Guam, United States Virgin Islands, and Northern Mariana Islands.

Verification Number: An INS tracking number which is assigned to each noncitizen application if a match is attempted. It is 13 digits in length and can be found in the Financial Aid Administrator section of the SAR, along with the match flags. With one exception, it must be provided when the G-845S is submitted (see text).

INS FIELD OFFICES DIRECTORY

ALASKA

Anchorage

INS: Immigration Status Verifier
Suite 102
620 East 10th Avenue
Anchorage, AK 99513

Phone: 907-271-4953
Fax: 907-271-3112

ARIZONA

Phoenix

INS: Immigration Status Verifier
2035 North Central Avenue
Phoenix, AZ 85004

Phone: 602-379-3255
Fax: 602-379-4009

CALIFORNIA

Los Angeles

INS: Immigration Status Verifier
300 N. Los Angeles Street, Rm. 1001
Los Angeles, CA 90012

Phone: 213-526-7647

San Francisco

INS: Immigration Status Verifier
Appraisers Building
630 Sansome Street, Room 300
San Francisco, CA 94111

Phone: 415-705-4206/7
Fax: 415-705-4568

San Diego

INS: Immigration Status Verifier
880 Front Street
San Diego, CA 92101

Phone: 619-557-6727
Fax: 619-557-6565

California Service Center

INS: Immigration Status Verifier
P.O. Box 30080
Laguna Niguel, CA 92607

Phone: 714-360-2800

COLORADO

Denver

INS: Immigration Status Verifier
4730 Paris Street
Denver, CO 80239

Phone: 303-371-4415
Fax: 303-361-0748

CONNECTICUT

Hartford

INS: Immigration Status Verifier
450 Main Street, Rm. 456
Ribicoff Federal Building
Hartford, CT 06103-3060

Phone: 860-240-3171

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FLORIDA

Miami

INS: Immigration Status Verifier
7880 Biscayne Boulevard, Room 620
Miami, FL 33138

Phone: 305-536-5703/5704
Fax: 305-350-5708

GEORGIA

Atlanta

INS: Immigration Status Verifier
77 Forsyth Street, S.W.
Atlanta, GA 30303

Phone: 404-331-3251
Fax: 404-331-1146

GUAM

Agana

INS: Immigration Status Verifier
Pacific Daily News Building, Suite 801
238 Archbishop Flores Street
Agana, Guam 96910

Phone: 671-472-7349
Fax: 671-472-7491

HAWAII

Honolulu

INS: Immigration Status Verifier
595 Ala Moana Boulevard
P.O. Box 461
Honolulu, HI 96813

Phone: 808-532-3721

ILLINOIS

Chicago

INS: Immigration Status Verifier
10 West Jackson Boulevard, Room 222
Chicago, IL 60604

Phone: 312-886-0909
Fax: 312-353-7260

INDIANA

Indianapolis

INS: Immigration Status Verifier
Gateway Plaza, Room 400
950 North Meridian Street
Indianapolis, IN 46204

Phone: 317-226-6009

LOUISIANA

New Orleans

INS: Immigration Status Verifier
Postal Office Building
Room T-8005
701 Loyola Avenue
New Orleans, LA 70113

Phone: 504-589-6614/6615
Fax: 504-589-4451

MAINE

Portland

INS: Immigration Status Verifier
739 Warren Avenue
Portland, ME 04103

Phone: 207-780-3443/3266
Fax: 207-780-3481

MARYLAND

Baltimore

INS: Immigration Status Verifier
NationsBank Tower 1, 12th Floor
100 South Charles Street
Baltimore, MD 21201

Phone: 410-962-2292
Fax: 410-962-9229

MASSACHUSETTS

Boston

INS: Immigration Status Verifier
JFK Federal Building
Government Center
Boston, MA 02203

Phone: 617-565-3879

MICHIGAN

Detroit

INS: Immigration Status Verifier
Federal Building
333 Mt. Elliott Street
Detroit, MI 48207

Phone: 313-568-6012
Fax: 313-568-6014

MINNESOTA

St. Paul

INS: Immigration Status Verifier
2901 Metro Drive, Suite 100
Bloomington, MN 55425

Phone: 612-335-2235/2236
Fax: 612-335-2262

MISSOURI

Kansas City

INS: Immigration Status Verifier
9747 N. Conant Avenue
Kansas City, MO 64153

Phone: 816-891-0640
Fax: 816-891-8745

St. Louis

INS: Immigration Status Verifier
Robert A. Young Federal Building
1222 Spruce Street, Room 1100
St. Louis, MO 63103-2815

Phone: 314-539-2534/2535
Fax: 314-539-2539

MONTANA

Helena

INS: Immigration Status Verifier
2800 Skyway Drive
Helena, MT 59601

Phone: 406-449-5428
Fax: 406-449-5752

NEBRASKA

Lincoln

INS: Immigration Status Verifier
850 S Street
Lincoln, NE 68501-2521

Phone: 402-437-5769
Fax: 402-437-5475

Omaha

INS: Immigration Status Verifier
3736 S. 132nd Street
Omaha, NE 68144

Phone: 402-697-9302/9305
Fax: 402-697-9064

NEVADA

Las Vegas

INS: Immigration Status Verifier
3373 Pepper Lane
Las Vegas, NV 89120

Phone: 702-388-6626
Fax: 702-388-6627

Reno

INS: Immigration Status Verifier
1351 Corporate Boulevard
Reno, NV 89502

Phone: 702-784-5186
Fax: 702-784-5899

NEW JERSEY

Newark

INS: Immigration Status Verifier
Federal Building, Room 304
970 Broad Street
Newark, NJ 07102

Phone: 201-645-4537/4538/4539
Fax: 201-645-3543

NEW YORK

Albany

INS: Immigration Status Verifier
James T. Foley Courthouse
445 Broadway
Room 227
Albany, NY 12207

Phone: 518-431-0320
Fax: 518-472-0329

Buffalo

INS: Immigration Status Verifier
130 Delaware Avenue
Buffalo, NY 14202

Phone: 716-551-4741, ext. 4218/4627/
4207

New York

INS: Immigration Status Verifier
26 Federal Plaza, Room 7-130
New York, NY 10278

Phone: 212-264-5872
Fax: 212-264-2189

NORTH CAROLINA

Charlotte

INS: Immigration Status Verifier
6 Woodlawn Green, Suite 138
Charlotte, NC 28217

Phone: 704-523-1704

OHIO

Cleveland

INS: Immigration Status Verifier
1240 E. 9th Street, Room 1917
Cleveland, OH 44199

Phone: 216-522-2268/2612
Fax: 216-522-7039

OKLAHOMA

Oklahoma City

Contact the Dallas, TX office:

INS: Immigration Status Verifier
8101 North Stemmons Freeway
Dallas, TX 75247

Phone: 214-655-5384
Fax: 214-655-3052

OREGON

Portland

INS: Immigration Status Verifier
Federal Office Building
511 Northwest Broadway
Portland, OR 97209

Phone: 503-326-7186
Fax: 503-326-7182

PENNSYLVANIA

Philadelphia

INS: Immigration Status Verifier
1600 Callowhill Street
Philadelphia, PA 19130

Phone: 215-656-7184/7185
Fax: 215-656-7200

Pittsburgh

INS: Immigration Status Verifier
2130 Federal Building, Rm. 314
1000 Liberty Avenue
Pittsburgh, PA 15222

Phone: 412-644-4552
Fax: 412-644-6375

PUERTO RICO

San Juan

INS: Immigration Status Verifier
GPO Box 365068
San Juan, PR 00936

Phone: 787-766-5021
Fax: 787-766-5838

RHODE ISLAND

Providence

INS: Immigration Status Verifier
200 Dyer Street
Providence, RI 02903

Phone: 401-454-2865

TENNESSEE

Memphis

INS: Immigration Status Verifier
1341 Sycamore View Rd., Suite 100
Memphis, TN 38134

Phone: 901-544-0264
Fax: 901-544-4123

TEXAS

Dallas

INS: Immigration Status Verifier
8101 North Stemmons Freeway
Dallas, TX 75247

Phone: 214-655-5384
Fax: 214-655-3052

El Paso

INS: Immigration Status Verifier
1545 Hawkins Boulevard
El Paso, TX 79925

Phone: 915-540-1842

Harlingen

INS: Immigration Status Verifier
2102 Teege Avenue
Harlingen, TX 78550

Phone: 210-427-8922
Fax: 210-423-7147

Houston

INS: Immigration Status Verifier
509 North Belt
Houston, TX 77060

Phone: 713-847-7964

San Antonio

INS: Immigration Status Verifier
8940 Fourwinds Drive
Suite 2020
San Antonio, TX 78239

Phone: 210-967-7065

UTAH

Salt Lake City

INS: Immigration Status Verifier
5272 South College Drive, Suite 100
Salt Lake City, UT 84123

Phone: 801-265-8678

VERMONT

St. Albans

INS: Immigration Status Verifier
Federal Building
P.O. Box 328
St. Albans, VT 05478

Phone: 802-951-6658

Eastern Service Center

INS: Immigration Status Verifier
75 Lower Welden Street
St. Albans, VT 05479-0001

Phone: 802-527-3160

VIRGINIA

Norfolk

INS: Immigration Status Verifier
5280 Hannamon Drive
Norfolk, VA 23513

Phone: 757-858-6292

Washington, DC Processing Center

INS: Immigration Status Verifier
4420 North Fairfax Drive
Arlington, VA 22203

Phone: 202-307-1501

VIRGIN ISLANDS

Charlotte Amalie

INS: Immigration Status Verifier
P.O. Box 610
St. Thomas, VI 00804

Phone: 809-774-1390
Fax: 809-776-4981

WASHINGTON

Seattle

INS: Immigration Status Verifier
815 Airport Way South
Seattle, WA 98134

Phone: 206-553-7928/2319
Fax: 206-553-2730

WISCONSIN

Milwaukee

INS: Immigration Status Verifier
Federal Building, Room 186
517 E. Wisconsin Avenue
Milwaukee, WI 53202

Phone: 414-297-3565

Appendix B: Selective Service Status Information Letters

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000001 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you are an alien who first entered the United States 30 days or less before your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
E1:LXA1 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000002 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you were released from incarceration 30 days or less before your 26th birthday after having been continuously incarcerated, institutionalized or confined to the home since your 18th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
E2:LXA2 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000003 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you began incarceration 30 days or less after your 18th birthday and were incarcerated, institutionalized or confined to the home through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operatic s Manager

SAMPLE

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151

431-35-6054
DMC/CG
E3:LXA3 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000004 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous active duty military status through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
E4:LXA4 J R 12/96

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000005 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous incarceration, institutionalization or confinement to the home from your 18th birthday through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

SAMPLE

139

431-35-6054
DMC/CG
E5:LXA5 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000006 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States for the first time after your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
E6:LXA6 J R 01/95

154

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000007 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States on a valid visa as a lawful non-immigrant before the age of 26, and remained in that status until your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

SAMPLE

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DMC/CG
E7:LXA7 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000009 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

The denial of any right, benefit, or privilege which is conditional on registration with the Selective Service System after July 20, 1980, is not applicable to a man born before January 1, 1960.

Sincerely,

JOHN L. WESTART
Operations Manager

SAMPLE

150

431-35-6054
DMC/CG
NR:LXAD J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000008 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

Although you stated in your letter you completed and submitted a registration form previously, we cannot determine why we did not receive it. You are not registered, and the law does not allow registration after age 26.

Any explanation must be made to the agency administering the right, benefit, or privilege you seek. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

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431-35-6054
DMC/CG
RR:LXAC J R 01/95

157

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000010 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

A search of our files reveals that you are not registered. You were required to register with the Selective Service within 30 days after your discharge from military service if you had not reached age 26 at that time. If you entered the military after reaching age 18, you should have already registered within 30 days of your 18th birthday. Registration after reaching age 26 is prohibited by law.

If you are being denied a right, benefit, or privilege because you have not registered with the Selective Service System and have served in the armed forces on active duty or in the Reserves or National Guard or enrolled in a Delayed Entry Program (DEP), evidence of your military service may serve to show that your failure to register was not intentional. The agency administering the right, benefit, or privilege you seek will make the final decision regarding your eligibility. You should submit this letter, along with any evidence of your military service, to that agency for its consideration.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

431-35-6054
DMC/CG
NM:LXAF J R 11/96

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 70324-000017 March 24, 1997

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System. A search of our files, and an examination of the information you provided reveal that you were required to register with Selective Service, but have not registered.

Any explanation to justify your failure to register must be made to the agency administering the right, benefit, or privilege you seek. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

JOHN L. WESTART
Operations Manager

SAMPLE

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431-35-6054
DMC/CG
RD:LXDB J R 11/96

Appendix C: Eligibility Match Results

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This appendix provides charts of results that will be seen on output documents for the matches described in this chapter. Included in the charts are the comment numbers and text, the match flags, and whether the match result causes the application to be rejected or flagged with a "C" next to the EFC. A summary of procedures for resolving problems is also provided, although schools may want to refer to the main text for details. Please note that this appendix does not cover all the CPS eligibility matches, nor does it list every comment that may be printed on an output document. In addition, further changes may be made to the CPS and to the comments after this Handbook goes to print. Schools should refer to *A Guide to 1998-99 SARS and ISIRs* for a complete and final listing of comments. Schools are responsible for resolving problems indicated by any output document comments, not just those discussed in this chapter.

SSA Citizenship Match

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
SSA confirmed citizenship status	A or blank		No comment	None
SSA did not confirm citizenship status	B, C, D, E, F, or *	C code	146 We sent your application to Social Security Administration (SSA) to verify your citizenship status. The SSA did not confirm that you are a U.S. citizen. You need to provide your school with documentation of your citizenship status before you can receive Federal student aid. If you are an eligible non-citizen, you must correct item 15 on this SAR and provide your Alien Registration Number if necessary.	If the student is a U.S. citizen, he or she should provide documentation (see Appendix A). If the student is an eligible noncitizen, he or she should correct Item 15 and provide a valid A-Number. If the student is then successfully matched with INS as an eligible noncitizen, no further resolution is necessary.
SSA could not confirm citizenship status because there was no match on SSN, name, or date of birth	N	C code	062 In addition, the Social Security Administration could not confirm your claim of citizenship because of their question about your social security number, name, or date of birth.	Make any necessary corrections to SSN, name, or date of birth so record can be sent back for matching. Review subsequent transactions for the updated match results. If the student believes the information originally reported is correct, he or she should contact SSA so that it may update its database. The school may pay the student if it receives documentation of the student's citizenship status (see Appendix A).

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Social Security Number Match

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
Successful match	4		No comment	None
Date of birth inconsistent with SSA records	2	C code	060 The date of birth you reported on your application is inconsistent with the Social Security Administration's records.	The student may receive payment after providing documentation that explains the discrepancy. If the reported date of birth was incorrect, the student can also submit a correction; the application will then be rematched, and the school should check for changes to the match results. If the reported date of birth was correct, the student may want to contact SSA to have it correct its records.
Name inconsistent with SSA records	3	C code	061 According to the Social Security Administration (SSA) records, the name you reported on your application does not correspond with the social security number you provided in Item 8. You should review Items 1, 2, 3, and 8 on this SAR. If all of these items are correct, you must contact an SSA office to resolve this problem. If you find that Items 1, 2, or 3 are incorrect, you should make corrections on your SAR where appropriate. If you determine that Item 8 is incorrect, you should contact your FAA to determine if you should correct your social security number on your SAR or file a new application.	The student may receive payment after providing documentation that explains the discrepancy and showing that the submitted SSN is correct. If the reported name was incorrect, the student should submit a correction to the CPS. If the reported SSN was incorrect, the student **must** submit a correction. If both the reported SSN and name are correct, the student may want to contact SSA so it can correct its records.
Match conducted, but no match on SSN (SSN invalid)	1	Reject 18	024 The Social Security Administration (SSA) did not confirm that the social security number you reported on your aid application is valid. If you believe that the number you reported is correct, you must contact an SSA office to resolve this problem. If you determine that the social security number you reported on your aid application is not correct, you should contact your FAA to determine if you should correct your social security number in Item 8 on your SAR or file a new application.	If the student's SSN is correct, the student should contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN.

Social Security Number Match (continued)

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
No match because last name or date of birth was missing, but SSN is within valid range	8	Rejects N, 13, and/or 5	059 We could not determine from the Social Security Administration if the social security number you reported belongs to you because you did not give us your last name or date of birth. Correct Items 1 and 9 on your SAR.	The student must make corrections to provide the name and date of birth. When the corrections are submitted, the application will be rematched with SSA. The school should check the new output document for the match results.
No match because last name or date of birth was missing, and SSN is not within valid range	8	Reject P and Rejects N, 13, and/or 5	023 It appears that the social security number you reported on your application is not a valid social security number. See your FAA for assistance.	The student must make corrections to provide the name and date of birth. In addition, if the student's SSN is correct, the student should contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN.
No match due to processing problems, but SSN is within valid range	0 or 9	C code	058 Because of processing problems, we were unable to determine from the Social Security Administration if the social security number you reported on your application belongs to you. To receive Federal student aid, you must provide current proof to your FAA that the social security number in Item 8 is yours.	If the SSN is correct, the student may receive aid after providing clear and convincing proof to the school that the SSN is correct. Otherwise, the student must correct the SSN. If any corrections are made, the application will be rematched with SSA, and the school should check the new output document for results.
No match due to processing problems, and SSN is not within vaild range	0 or 9	Reject P	023 It appears that the social security number you reported on your application is not a valid social security number. See your FAA for assistance.	If the student's SSN is correct, the student should contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN.
Student tried to change SSN previously confirmed by SSA.	4		013 You tried to change your social security number. The Social Security Administration already verified that this social security number belongs to you. If you need assistance, see your FAA.	If the student used a wrong SSN, but it was confirmed by SSA, the student can only change it by filing a new application, not by making a correction. In certain rare cases, the student may need a correction application (see "Valid Social Security Number" in Section 1).

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Selective Service Match

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
Registration or exemption confirmed by Selective Service	Y		029 Your registration or your exemption status has been confirmed by Selective Service.	None
Applicant not in Selective Service database	N	C code	030 The Selective Service reported that you have not registered with them. If you are female or were born before 1960, disregard this comment. Otherwise, a male who is required to register with Selective Service must be registered before aid can be disbursed. If you have not yet registered, are male, and are 18 through 25 years of age, you must either check the "Yes" box for Item 105 on Part 2 of your SAR, or obtain and complete a Selective Service Registration form, available at your local post office. If you believe you have already registered or are exempt, please contact the Selective Service at 847-688-6888 to resolve any problems regarding your registration status.	Before the school can pay the student, the school must have proof that the student is exempt or the student must provide confirmation that he is registered (that is, his Selective Service Registration Acknowledgement or letter of registration).
No match due to processing problems	L or Z	C code	032 Because of processing problems we were unable to conduct a match to verify your registration status with Selective Service. If you are female or were born before 1960, disregard this comment. Otherwise, a male who is required to register with Selective Service must verify he is registered before aid can be disbursed. If you registered, you will receive a letter of confirmation from the Selective Service within two weeks. If you are not registered, are male, and are 18 through 25 years of age, you must either check the "Yes" box for Item 105 on Part 2 of your SAR, or obtain and complete a Selective Service Registration form, available at your local post office. If you believe you are registered and do not receive a letter of confirmation, or are exempt, contact Selective Service at 847-688-6888.	If the student makes a correction, the match will be conducted again. The school should check the new output document for match results. Otherwise, the school can pay the student if it has documentation the student is exempt or the student provides confirmation of registration (his Selective Service Registration Acknowledgement or letter of registration).

Selective Service Registration

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
Name forwarded to Selective Service for registration	Y		031 We have forwarded your name to Selective Service for registration as you requested.	None
Name forwarded to Selective Service for registration, student not old enough to register	T		028 We have forwarded your name to Selective Service for registration, as you requested. They will process your registration request 30 days prior to your 18th birthday.	None
Student asked to be registered, but either is too old or did not provide enough information	blank	C code	033 We could not send your name to Selective Service as you requested because you did not give us enough information, or because you are past the age limit for registration. If you are at least 18 but not yet 26, you may register by checking the "Yes" box for Item 105 on your SAR. You must also provide information for Items 1, 2, and 9. You may also register by obtaining and completing a Selective Service Registration form, available at your local post office. If you are a male who has reached age 26, you cannot use the SAR to register. You must contact Selective Service at 847-688-6888 to resolve your registration status before you can receive Federal student aid. You are exempt from registering if born before 1960.	If the student is younger than 26, the student should make corrections and provide the missing information (first name, last name, or date of birth). The school should check the new output document for registration results. If the student is 26 or older, he can receive aid if the school has proof that he is exempt, or if he can provide evidence of registration. If the student is not registered or exempt, he can only receive aid if the school determines that he did not knowingly and willfully fail to register. (See "Registration with Selective Service" in Section 1.)
Registration not conducted due to processing problems	blank, L, or Z	C code	037 We were unable to complete your registration with Selective Service. If you wish to register and you have not yet reached age 26, you must either check the "Yes" box for Item 105 on your SAR, or complete a Selective Service Registration form, available at your local post office.	If the student submits a correction, the registration will be attempted again. The school should check the new output document for results. Otherwise, the school can pay the student if it has documentation that the student is exempt or if the student provides evidence of registration.

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NSLDS Match

Result	Results flag	Match flag	"C" code or rejected application	Comment number and text	Action needed
Student not in default, does not owe overpayment	1 NSLDS data sent	1		No comment	None
SSN is in database, but neither the first name nor date of birth matched	2	7	C code	138 We matched your social security number (SSN) with the National Student Loan Data System (NSLDS), but the name on the NSLDS record did not match the name you reported on your student aid application. Therefore this SAR does not contain the financial aid history that is associated with your reported SSN. You should review both your name and SSN, and work with your FAA to resolve discrepancies.	If the student originally reported incorrect information, he or she should make a correction. The application will be sent through the match again, and the school should check the new output document for the results. Otherwise, the school can access the NSLDS directly to determine if the record belongs to the student (see "NSLDS Match" in Section 2). If the record does belong to the student, the school must use the NSLDS data in determining the student's eligibility. If the record is not the student's, the school should assume the student has no relevant financial aid history; it may also want to contact the agency that provided the information.
Student is not in the NSLDS data file	3	1		140 Your application record was matched successfully with the National Student Loan Data System (NSLDS). The NSLDS confirmed that your social security number is not associated with any previous financial aid history.	None
Student is in the NSLDS data file, but there is no relevant data to print	4	1		137 Your application record was matched successfully with the National Student Loan Data System (NSLDS). However, no financial aid history information was found for printing on your SAR.	None

NSLDS Match (continued)

Result	Results flag	Match flag	"C" code or rejected application	Comment number and text	Action needed
Student has at least one loan in default	1 NSLDS data sent	2	C code	132 Our records indicate that you are in DEFAULT on a Federal student loan. You are not eligible to receive any Federal student aid until your account has been resolved.	The output document will also have comments indicating who holds the loan, unless the loan is a Perkins Loan. The school code of the school holding a defaulted Perkins Loan will be on the NSLDS Information page. The student must resolve the default before he or she can receive aid (see "Loan Defaults and Over-payments" in Section 1.)
Student owes at least one overpayment	1 NSLDS data sent	3	C code	133 Our records indicate that you received at least one overpayment of Federal student aid funds. You are required by law to repay any funds received from the student aid programs to which you were not entitled. Until your overpayment has been repaid in full, you are ineligible to receive any Federal student assistance.	If the Department holds the overpayment, the output document will also have a comment identifying the appropriate regional office. The NSLDS Financial Aid History page lists codes for the holders of overpayments. The school can also access NSLDS directly to determine the holder of a Perkins overpayment. The student must resolve the overpayment before he or she can receive aid (see "Loan Defaults and Over-payments" in Section 1.)
Student has at least one defaulted loan and owes at least one overpayment	1 NSLDS data sent	4	C code	134 Our records indicate that you are in DEFAULT on at least one Federal student loan and that you received at least one overpayment of Federal student aid funds. You are not eligible to receive any Federal student aid until your accounts have been resolved.	See the required actions for default and overpayment above.

NSLDS Match (continued)

Result	Results flag	Match flag	"C" code or rejected application	Comment number and text	Action needed
Match not conducted due to processing problems		0, 8, 9	C code	131 To receive Federal student aid, you cannot be in default on any U.S. Department of Education student loan. Because of processing problems we were unable to determine whether you are in default on a loan. Contact your FAA for more information.	If any corrections are made, the student's information will be rematched with NSLDS. In addition, if the student or school requests a duplicate output document, the application information will be rematched with NSLDS. In either case, the school should check the new output document for match results. Otherwise, the school must get a paper FAT from any previous schools.

INS Match

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
Student's eligible noncitizen status confirmed by INS	Y		143 Your citizenship status has been confirmed by the Immigration and Naturalization Service (INS), and you meet the citizenship requirements for Federal student aid.	None
Match not conducted because student did not provide enough information (including a valid A-Number)	blank	C code	142 The Immigration and Naturalization Service (INS) could not confirm your statement that you are an eligible noncitizen because there is a question about your alien registration number. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.	The student should make corrections to provide the missing information. When the corrections are submitted, the application will be rematched with the database; the school should check the new output document for match results. This comment will also appear for certain noncitizens not required to have A-Numbers (see "Citizens of the Pacific Islands" in Appendix A).
INS did not confirm student's eligible noncitizen status	N	C code	144 The Immigration and Naturalization Service (INS) did not confirm your statement that you are an eligible noncitizen. You must submit proof of you noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.	Secondary Confirmation required (see "Using the G-845S for Secondary Confirmation" in Appendix A).
No match due to processing problems	L or Z	C code	145 Because of processing problems, the Immigration and Naturalization Service (INS) was not able to confirm your statement that you are an eligible noncitizen. You must submit proof of your eligible noncitizen status to your school before you may receive Federal student aid.	If the student makes a correction, the match will be conducted again. The school should check the new output document for match results. Otherwise, the school must conduct Secondary Confirmation (see "Using the G-845S for Secondary Confirmation" in Appendix A).

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INS Match (continued)

Result	Match flag	"C" code or rejected application	Comment number and text	Action needed
Match not conducted because student did not indicate citizenship status	blank	Reject 17	068 You did not indicate on your application that you are a U.S. citizen or an eligible noncitizen. To be eligible to receive Federal student aid, a student must be-- (1) A U.S. citizen (or U.S. national, or (2) An eligible noncitizen, such as a U.S. permanent resident or a resident of certain Pacific Islands, or (3) An eligible noncitizen as determined by the Department of Education	If student failed to indicate citizenship, citizenship match with SSA was still conducted. If that match confirmed the student's citizenship, the application will not be rejected, and no resolution is required, although the student should make a correction to indicate he or she is a citizen or national. If SSA did not confirm the student's citizenship, the student receives Reject 17 and resolution is required. The student should provide correct information on his or her citizenship status in Item 15. The student should also provide an A-Number if he or she is an eligible noncitizen. The student's record can then be sent through the INS match; the school should review the INS match flags on the new output document.
Match not conducted because student changed status from eligible noncitizen to citizen or changed confirmed A-Number	blank	C code	141 You changed your response to citizenship or you changed the alien registration number verified with INS. You must submit proof of your citizenship status to your FAA.	The school must determine why the student made the change and resolve any conflicting information. The student may need to submit proof of citizenship, depending on the reason for the change.

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The Federal Student Financial Aid Handbook 1998-99

CHAPTER 3

Institutional Eligibility and Administrative Requirements

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CONTENTS

CHAPTER THREE
INSTITUTIONAL ELIGIBILITY AND ADMINISTRATIVE REQUIREMENTS

INTRODUCTION **1**
Updates 1

SECTION 1: INSTITUTIONAL AND PROGRAM ELIGIBILITY **5**
The Three Definitions of Eligible Institutions 5
Chart: Eligible School Definitions 6
Control and Legal Authorization 7
Accreditation 8
Admissions Standards 9
"Two-Year" Rule 10
Program Eligibility Requirements 10
Weeks of Instruction and the 12-Hour Rule 13
Additional Eligible Program Requirements 14
Clock Hour/Credit Hour Conversions 15
Other Eligibility Factors 18
Foreign Schools Eligible for FFEL Programs 23
Reporting Information on Foreign Sources 24

SECTION 2: GENERAL PARTICIPATION REQUIREMENTS **27**
The Program Participation Agreement 27
Financial Responsibility 30
Standards of Administrative Capability 30
Project EASI 38
Definition of a Payment Period 39
Academic Year Requirements 44
Contracts with Third-Party Servicers 47
Anti-Drug Abuse Requirements 50
Anti-Lobbying Certification and Disclosure 52

SECTION 3: CASH MANAGEMENT **55**
General Requirements 55
Requesting Funds 56
Maintaining and Accounting for Funds 60
Disbursing Funds 62
Disbursement by Payment Period 65

Early and Late Disbursements 66
Credit Balances and Prior-Year Charges 68
Required School Notifications 70
Required Student Authorizations 72
Excess Cash 74
Administrative Cost Allowance 75

SECTION 4: REFUNDS AND REPAYMENTS 77
Required Policies and Procedures 79
Fair and Equitable Refund Requirement 80
Comparing to Determine the Largest Refund 82
Withdrawal Date 84
Approved Leave of Absence 86
Period of Enrollment for Which the Student Has Been Charged 86
Determining Institutional and Noninstitutional Charges 87
Unpaid Charges 88
Late Disbursements 90
Credit Balances 92
Pro Rata Refund Calculations 92
Federal Refund Policy Calculations 95
Repayment Calculations 97
Refunds of $25 or Less and Repayments under $100 98
Allocating Refunds and Repayments 98
Time Frames for Return of Funds 100
Case Studies 103

SECTION 5: AGREEMENTS BETWEEN SCHOOLS 133
Consortium Agreement 134
Contractual Agreement 135
Study Abroad or Domestic Exchange Programs 136

SECTION 6: PROGRAM REVIEWS AND AUDITS 137
Audit Requirements for Schools 137
Types of Audit Guidelines 139
Audit Submission Dates 139
Compliance Audit Submission Requirements 141
Financial Statement Submission Requirements 141
Audits for Foreign Schools 142
Audits for Third-Party Servicers 143
Having the Audit Performed 144
Program Reviews 146
Guaranty Agency Reviews 147
Appealing Audit and Program Review Determinations 147
Quality Assurance Program 148
Experimental Sites Initiative 149

SECTION 7: RECORDKEEPING AND DISCLOSURE 153
Required Records 153
Record Retention Periods 157
Record Maintenance 159
Examination of Records 160
Disclosing Student Information 161

SECTION 8: STUDENT CONSUMER INFORMATION 165
Basic Consumer Information Requirements 166
Job Placement Rates 168
Campus Security 168
Student Right to Know 175
Equity in Athletics 185
PPA Requirements for Schools Awarding Athletically Related Financial Aid 188
Loan Counseling 189
Drug and Alcohol Abuse Prevention Information 190
Misrepresentation 191
Equity in Athletics—Optional Form 193

SECTION 9: APPLYING FOR AND MAINTAINING PARTICIPATION IN THE SFA PROGRAMS 201
Applying to Participate 201
When to Submit a Fully Completed Application 210
Substantive Changes and How to Report Them 217
Single Identifier Initiative 223
Requirements When a School Ceases to be an Eligible Institution 224
Requirements When a School's SFA Participation Ends 225
Case Management 228
Corrective Actions and Sanctions 229

Introduction

The purpose of this chapter is to describe how a school becomes eligible to participate in the Student Financial Assistance (SFA) Programs, and to explain the administrative and fiscal requirements of SFA Program participation. In addition, this chapter discusses refund calculations, proper documentation and recordkeeping, disclosure requirements, and other issues relevant to the general administration of the SFA Programs.

Section 1 explains the statutory definitions for eligible institutions and program eligibility requirements. Even if a school already participates in the SFA Programs, it is a good idea to review this section briefly to make sure that all programs at the school are eligible. **Section 2** is an overview of the general requirements for SFA Program participation. **Section 3** discusses cash management requirements. **Section 4** explains refund and repayment calculations for students who withdraw from the school. **Section 5** discusses the use of agreements between schools to pay a student who is taking courses in an eligible program at more than one school. Audits, program reviews, the Quality Assurance Program, and the experimental sites initiative are discussed in **Section 6. Section 7** discusses recordkeeping requirements. The student consumer information requirements are explained in **Section 8**. **Section 9** explains how to apply for SFA participation, changes that can affect a school's participation and how to report these changes, responsibilities that a school must fulfill when leaving the SFA Programs, and sanctions and corrective actions taken by the Department.

UPDATES

Regulations

- ◊ A Notice published September 19, 1997 informs schools of the required electronic processes that a school must participate in to be considered administratively capable.

"Dear Colleague" Letters.

- "Dear Colleague" letter GEN-97-6, published August 1997, provides information on how and when to report changes to application information to the Department.

Changes to this chapter:

Section 1: Institutional and Program Eligibility

- No major changes.

Section 2: General Participation Requirements

- A discussion is included of the Notice published September 19, 1997 that informs schools of the required electronic processes that a school must participate in to be considered administratively capable.

Section 3: Cash Management

- Updated information is provided on the implementation of the Grants Administration and Payment System (GAPS), a part of the Education Central Automated Processing System (EDCAPS).

Section 4: Refunds and Repayments

- No major changes.

Section 5: Agreements Between Schools

- No major changes.

Section 6: Program Reviews and Audits

- Information is provided on revisions to OMB Circular A-133 (and the rescission of OMB Circular A-128).

Section 7: Recordkeeping and Disclosure

- No major changes.

Section 8: Student Consumer Information

- Information is provided on an amendment to the Hate Crimes Statistics Act (to include the category of "disabled" as victims of hate crimes) and its effect on the campus security requirements.

- Information is provided on the change to the definition of the cohort year by the Emergency Supplemental Appropriations for the Department of Defense (this changed the year from July 1- June 30 to September 1- August 31).

Section 9: Applying for and Maintaining Participation in the SFA Programs

- Changes have been made to include information from "Dear Colleague" letter GEN-97-6, published August 1997, which provides information on how and when to report changes to application information to the Department.

As noted in the text, further guidance and changes were under discussion at the time this Handbook went to print including

- Final regulations on financial responsibility standards (scheduled to be published by December 1, 1997) had not been published at the time this Handbook went to print. Once final regulations have been published, the Department will issue further guidance on financial responsibility standards as necessary in the form of "Dear Colleague" letters.

- The Department will provide additional guidance on the implementation of the required electronic processes in the form of an Action Letter. When issued, this up-to-date information will also be available on the SFA BBS.

- The Department plans to publish a "Dear Colleague" letter that provides further guidance on campus security requirements. When issued, this information will also be available on the SFA BBS.

- In the future, the Department plans to publish a "Dear Colleague" letter that provides further guidance on Student Right-to-Know requirements. When issued, this information will also be available on the SFA BBS.

section 1 Institutional and Program Eligibility

Before a school is eligible to participate in the SFA Programs, the school must meet the definition of an eligible institution. This section will discuss the three types of institutions that are eligible to participate in the SFA Programs and the effect of program eligibility requirements on institutional eligibility. Not every program at an eligible institution is an eligible program, nor must all eligible programs at the school have the same minimum program length or admissions standards. Generally, the requirements for an eligible institution are found in 34 CFR Part 600. Program eligibility requirements are found in 34 CFR Part 668.

A school must apply to the Department and receive approval from the Department of its eligibility to participate in the SFA Programs. A school applying for approval to participate for the first time should refer to Section 9 of this chapter. Section 9 also discusses changes in participation, loss of eligibility, and ownership changes.

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS

The Institutional Eligibility regulations (34 CFR Part 600) define three types of eligible institutions. Under the three definitions, a school is eligible to participate in *all* the SFA Programs, provided the school offers the appropriate type of eligible program. (Refer to the chart on page 3-6.) This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

School may meet more than one definition

Although the criteria defined for each of the three types of institutions differ somewhat, these eligible school definitions are not mutually exclusive. That is, a school may meet the definition of more than one type of institution.

ELIGIBLE SCHOOL DEFINITIONS

ELIGIBLE FOR ALL SFA PROGRAMS

Institution of Higher Education

Control: A public or private nonprofit educational institution located in a state.*

Proprietary Institution of Higher Education

Control: A private, for-profit educational institution located in a state.*

Postsecondary Vocational Institution

Control: A public or private nonprofit educational institution located in a state.*

Legal authorization: Is legally authorized by the state where it offers postsecondary education to provide a postsecondary educational program.

Accreditation: Is accredited by a nationally recognized accrediting agency or has met the alternative requirements.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory attendance in the state where the institution is located.

Program offered:

Provides

(1) an associate, baccalaureate, graduate, or professional degree, or

(2) at least a two-year program that is acceptable for full credit toward a bachelor's degree, or

(3) at least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

Program offered: Must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.

(1) Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. **May** admit students **without** an associate degree or equivalent.

(2) Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or **must** admit only students with an associate degree or equivalent.

(3) *Short-term Program.* Provides at least a 10-week (instructional time) undergraduate program of 300-599 clock hours. **Must** admit at least some students who do **not** have an associate degree or equivalent, and must meet specific qualitative standards (see page 3-12). **Note: These programs are eligible only for FFEL and Direct Loan participation.**

Two-year Rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two consecutive years.

*See the definition of "state" on the facing page.

CONTROL AND LEGAL AUTHORIZATION

Public/ private, nonprofit/ for-profit

The "control" of an institution distinguishes whether the school is public or private, nonprofit or for-profit. Under the institutional definitions, an "institution of higher education" or a "postsecondary vocational institution" can be either public or private, but is always nonprofit. A "proprietary institution of higher education" is always a private, for-profit institution.

A nonprofit institution

- is owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,
- is legally authorized to operate as a nonprofit organization by each state in which it is physically located, and
- is determined by the Internal Revenue Service to be eligible for tax-deductible contributions.

Definition of a "state"

With the exception of foreign schools (see page 3-23), an eligible institution under any of the three definitions must be located in a state. The definition of a "state" includes not only the 50 States of the Union, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the Virgin Islands, and the Northern Mariana Islands. For the purposes of the Federal Pell Grant (Pell Grant), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs, a "state" also includes the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau. **Generally, the determining factor is the physical location of the main campus or place of instruction.** For instance, if a school's main campus is in a state, as defined above, the school can still have an additional location in a foreign country.

School's main campus must be located "in a state"

Authorization by a state

To qualify under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state's legal authorization may be provided by the licensing board or educational agency. In some cases, the school's charter is its legal authorization. In other cases, a school is considered to be legally authorized if state law does not require it to have a license or other formal approval.

Generally, an institution must be accredited by a nationally recognized accrediting agency to be eligible. The Department has published regulations governing the procedures and criteria for recognizing accrediting agencies. For more information, see the Accreditation regulations (34 CFR Part 602). The Department periodically publishes a list of recognized accrediting bodies in the *Federal Register*, based on criteria given in 34 CFR Part 602. Copies of this list are also available from the

U.S. Department of Education
Accreditation and Eligibility Determination Division
600 Independence Ave. SW, Room 3012 (ROB-3)
Washington, DC 20202-5244

The law provides two statutory alternatives to accreditation. First, a nonprofit institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Secondly, unaccredited public postsecondary vocational educational institutions may be eligible for SFA funds if accredited by a state agency that the Department determines to be a reliable authority.

Nationally Recognized Accrediting Agency or Association: An accrediting agency or association which the Department has recognized to accredit or pre-accredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Preaccredited: A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time.

Changes in accreditation may affect eligibility

If a school loses its accreditation, it is ineligible to participate in the SFA Programs and must notify the Department within 10 days.[1] However, if a school's accrediting agency loses its recognition from the Department, the school has up to 18 months in which to obtain accreditation from another recognized agency. Other changes in accreditation may also jeopardize institutional participation. If a school changes accrediting agencies, it may be subject to termination unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies. A school must obtain written approval from the Department for the change of accrediting agency to continue its eligibility status (see Section 9). If a school is accredited by two agencies at the same time, the school must

Dual accreditation

[1]An accredited or preaccredited school must agree to submit, for any dispute involving the termination of accreditation, to binding arbitration before initiating any other legal action.

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designate which agency's accreditation will be used in determining institutional eligibility for SFA funds and must inform the Department of the designation. Further, the school must provide to the Department (and to both agencies involved) all materials documenting sufficient reason and cause for dual accreditation. See Section 9 of this chapter for more on changes in accreditation and loss of eligibility.

ADMISSIONS STANDARDS

Admissions standards

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance in the state in which the school is located.

Regular student : A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized educational credential.

Students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria to be eligible for aid from the SFA Programs. (For more information on this student eligibility requirement, see Chapter 2 under "Ability to Benefit.")

Student may certify that high school diploma/GED was granted

For SFA purposes, the school is not required to keep a copy of a student's high school diploma or GED. Rather, the school may rely on the student's certification that he or she has received the credential and a copy of the certification must be kept on file. (This certification need not be a separate document. It may be collected on the school's admissions application.) The school may also require the student to provide supporting documentation.

Recognized equivalent of a high school diploma

Generally, a recognized equivalent of a high school diploma is either a GED or a state certificate (received after the student has passed a state authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases. If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree, the student's academic transcript is considered equivalent to a high school diploma. A student without a high school diploma who is seeking enrollment in a program of at least the associate-degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma. These students may be eligible to receive SFA funds without having to meet the ability-to-benefit requirements, provided the students are no longer enrolled in high school.

Alternatives for special cases

A school that admits students who do not have a high school diploma or its recognized equivalent has some additional considerations. A school does *not* qualify as an eligible institution if, for its latest complete award year, 50% or more of its regular enrolled students had neither a high school diploma or its equivalent, unless the school provides a four-year bachelor's degree program or two-year associate degree program. A waiver of this limitation is possible for some schools. See page 3-22 for more information.

School must make GED program available

Also, a school that participates in the SFA Programs and admits students without a high school diploma or its equivalent must make a GED preparatory program available to its students. (For more information see the discussion of the Program Participation Agreement in Section 2.)

"TWO-YEAR" RULE

To be eligible as a proprietary institution or a postsecondary vocational institution, a school must have provided continuous postsecondary instruction (and been legally authorized to do so) for at least two consecutive years. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or other federal agencies' requirements.

A branch campus[2] seeking status as a main campus or free-standing institution is subject to the two-year rule, but its time as a branch campus counts toward the two years. An additional location must obtain approval from the Department to become a branch campus. The branch campus then must also satisfy the two-year rule by operating independently for two years before it may be evaluated to be considered a free-standing institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule, but time as an eligible institution of higher education or its additional location does.

PROGRAM ELIGIBILITY REQUIREMENTS

To qualify as an eligible institution, a school must offer at least one eligible program. As stated previously, not all programs at an eligible institution will necessarily be eligible, but at least one of the programs at the school must meet the eligible program requirements.

Determination of program eligibility

Generally, a student must be enrolled in an eligible program to receive SFA funds. Because a school's eligibility does not necessarily extend to all its

[2]A branch campus is a location of a school that is geographically apart and independent of the main campus of the school. A location is independent of the main campus if the location: (1) is permanent in nature; (2) offers courses in educational programs leading to a degree, certificate, or other recognized educational credential; (3) has its own faculty and administrative or supervisory organization; and (4) has its own budgetary and hiring authority.

programs, the school must ensure that a program is eligible *before* awarding SFA funds to students in that program. The school is ultimately responsible for determining that a program is eligible. In addition to determining that the program meets the eligible program definition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state agency to offer the program (if the state licenses individual programs at postsecondary institutions).

A school's eligibility extends to all eligible programs and locations that were identified on the school's application for participation, unless the Department determines that certain school programs or locations did not meet the eligibility requirements. In general, the school's eligible non-degree programs and locations are specifically named on the approval notice (Eligibility and Certification Approval Report [ECAR]). Additional locations and programs may be added later (see Section 9).

CLARIFICATION

If a program offered through telecommunications or continuing education meets the definition of an eligible program, students enrolled in that program must be considered for SFA Program assistance on the same basis as students enrolled in other eligible programs that are offered through traditional modes.

Programs that meet different definitions

It is not uncommon for a school to offer programs that meet different eligible program definitions. For example, a school that offers a bachelor's degree program (qualifying the school as an institution of higher education) may also offer a nondegree training program that is eligible under a definition that qualifies the school as a postsecondary vocational institution.

Institution of higher education

A school qualifies as an institution of higher education if (in addition to meeting all other eligibility requirements, including being a nonprofit school) it offers a program that leads to an associate, bachelor's, professional, or graduate degree. For such programs, there are no minimum program length requirements.

A school may also qualify as an institution of higher education if it offers a program of at least two academic years in duration that is acceptable for full credit toward a bachelor's degree, or if it offers a program of at least one academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.[3]

[3]A "recognized occupation" is one that is listed in the "occupational division" of the *Dictionary of Occupational Titles* (published by the U.S. Department of Labor) or one that is considered by the Department, in consultation with the Department of Labor, to be a recognized occupation.

Proprietary or postsecondary vocational schools

There are three types of eligible programs that will qualify an otherwise eligible school as a proprietary institution or a postsecondary vocational institution. All of these programs are required to have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

Undergraduate programs

The **first type** of eligible program is one that must provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. The program *may* admit as regular students persons who have not completed the equivalent of an associate degree.

Shorter programs

The **second type** of eligible program is one that must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program *or* must admit as regular students *only* persons who have completed the equivalent of an associate degree.

"Short-term" programs

The **third type** of program is known as the "short-term program." **A short-term program qualifies for the FFEL and Direct Loan programs only.** A short-term program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students *some* persons who have not completed the equivalent of an associate degree. These programs must also satisfy the qualitative factors for completion rates, placement rates, program length, and period of existence of the program. Specifically, these programs must

Qualitative factors for short-term programs

- have verified completion and placement rates of at least 70%,
- not be more than 50% longer than the minimum training period required by the state (or federal agency), if any, for the occupation for which the program of instruction is intended, and
- have been in existence for at least one year.

For the purpose of demonstrating compliance with these qualitative factors, a school must calculate the completion and placement rates *for the award year*, as explained later. The CPA who prepares the school's compliance audit report must attest to the accuracy of the school's calculation of completion and placement rates.

COMPLETION RATE CALCULATION

$$\frac{\text{Number of regular students who received credential for successfully completing the program within 150 \% of the length of the program}}{\text{Number of regular students enrolled for the year - number of regular students who withdrew with a 100\% refund* - number of regular students enrolled at the end of the year}}$$

*less any permitted administrative fee

PLACEMENT RATE CALCULATION

$$\frac{\text{Number of students who obtained employment* within 180 days of receiving credential, and who are employed (or have been employed) for at least 13 weeks following receipt of credential}}{\text{Number of students who received credential for successfully completing the program}}$$

*in the recognized occupation for which they were trained or in a related comparable occupation

School must document employment

The school must document the employment of any student it includes as "employed" in the placement rate calculation. Examples of such documentation include, but are not limited to, a written statement from the employer, signed copies of state or federal income tax forms, or written evidence of payments of Social Security taxes.

Definition of comparable occupation

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

Exceptions to eligible program definition

Note that there are two cases (certain types of preparatory coursework and teacher-certification programs) where students may receive FFEL or Direct Loan funds for enrollment in a program that does not meet the eligible program definition. (For more information, see Chapter 2.)

WEEKS OF INSTRUCTION AND THE 12-HOUR RULE

The three types of eligible programs discussed above, which qualify an otherwise eligible school as a proprietary institution or as a postsecondary vocational institution, are required to have a specified number of weeks of instruction. Definitions for a "week of instruction" and for a "week of instructional time" for the academic year definition are similar. (See the discussion of academic year in Section 2.)

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Week of instruction

For all programs except those measured in credit hours without standard terms (semesters, trimesters, or quarters), a "week of instruction" is any seven-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs.

Instruction does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.

For educational programs measured in credit hours without standard terms, a week of instruction must include at least **12 hours** of instruction, examinations, or preparation for examination within a consecutive seven-day period.

Minimum number of weeks, minimum number of hours

The 12-hour rule in effect requires a school to demonstrate that certain programs have not only a minimum number of weeks, but also a minimum number of hours. For example, in order for a program to meet the eligible program definition that requires at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of instruction, examinations, or preparation for examinations offered during a minimum of 15 weeks of instruction, the program must meet for a minimum of 15 calendar weeks over which a **minimum of 180 hours of instruction**, examinations, or preparation for examinations occur (12 hours of instruction, examinations, or preparation for examinations for 15 calendar weeks).

A school that wants to set its program to be only 15 calendar weeks long would therefore have to meet an average of 12 hours per week for the 15 calendar week period in order for the program to be eligible. A school with a program that meets less frequently than 12 hours a week would have to meet for enough weeks to provide 180 hours of instruction, examinations, or preparation for examinations. For example, a program meeting 6 hours per week would have to be 30 calendar weeks long in order to be eligible under this provision.

Holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, an institution may not include a holiday for these calculations unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

ADDITIONAL ELIGIBLE PROGRAM REQUIREMENTS

Several SFA Programs have additional requirements that an educational program must meet to be eligible. For example, only *undergraduate educational programs* are eligible under the Pell Grant and FSEOG programs. Further, *correspondence programs* are not eligible unless they

meet the general requirements for an eligible program and are required for the student's regular program of study leading to a degree. As discussed later in this section, certain telecommunications courses may be considered correspondence courses and therefore may be subject to the same requirements.

ESL programs

A program that consists solely of English as a Second Language (ESL) instruction is eligible *only* for Pell Grant participation. It must meet the general requirements for an eligible program (for example, it must lead to a degree or other credential) and may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have. The school must document its determination that the ESL instruction is necessary for each student enrolled. A school may request an eligibility determination from the Department for an ESL Program.

A student also may receive SFA funds for ESL coursework that is part of a larger eligible program. In this case, the ESL coursework is treated as remedial coursework. For more information, see Chapter 2.

Study abroad programs

Study abroad courses are eligible for SFA funds, regardless of whether they are *required* for the student's program of study, as long as they are *accepted for credit* in the student's program (provided that the requirements meet the consortium and contractual requirements discussed in Section 5). The law also requires schools to notify study-abroad students of the availability of such assistance and to certify on the new Program Participation Agreement that they will not deny SFA funds to such students.

Flight school

Under the FFEL Programs, a *flight school program* must maintain current valid certification by the Federal Aviation Administration to be eligible.

CLOCK HOUR/CREDIT HOUR CONVERSIONS

The clock hour/credit hour requirements affect both program eligibility, and the determination of the amount of SFA Program funds a student who is enrolled in the program may receive.

Schools must determine whether an undergraduate program measured in credit hours qualifies as an eligible program in credit hours for SFA purposes after using the required conversion formula unless

Exceptions

- ◊ the program is at least two academic years in length and provides an associate, bachelor's, or professional degree (or a degree that the Department has determined to be equivalent to one of these degrees), or

- each course within the program is acceptable for full credit toward one of these degrees at the school, and the degree requires at least two academic years of study.

Note that the exemption for programs that lead to a degree that is *equivalent* to an associate, bachelor's, or professional degree program of at least two years does not permit a school to ask for a determination that a *nondegree* program is equivalent to a degree program.

Also, public or private nonprofit hospital-based diploma schools of nursing are exempt from using the clock-to-credit hour conversion formula to calculate awards for the SFA Programs.

To determine the number of credit hours in a program for SFA purposes, schools must use the appropriate formula.

Formulas

For a semester or trimester hour program

$$\frac{\text{Number of clock hours in the credit-hour program}}{30}$$

For a quarter hour program

$$\frac{\text{Number of clock hours in the credit-hour program}}{20}$$

The school must use the resulting number of credit hours to determine if a program is eligible under the eligible program requirements explained on pages 3-10 to 3-13. For a program to qualify as eligible by providing at least 16 semester or trimester credit hours or 24 quarter credit hours, the program must include at least **480 clock hours of instruction**. For a program to qualify as eligible by providing at least 8 semester or trimester credit hours or 12 quarter credit hours, the program must include at least **240 clock hours of instruction**.

Because the results of these formulas determine the eligibility of a program, the resulting number of credit hours may not be rounded upward.

Program eligibility

If a school applies the appropriate formula and finds that a program is eligible, the converted credit hours are used to determine the amount of SFA funds that a student who is enrolled in the program is eligible to receive under the Pell Grant, FFEL, and Direct Loan programs. If, after applying the formula, the number of credit hours in the program has decreased, a student's enrollment status could change resulting in a decrease in SFA eligibility under these programs.

Example

Sternberg University (SU) states that a two-year nondegree program measured in semester credit hours is 16 credit hours per semester. Courses within the program are not creditable toward a degree at SU. SU determines that there are 330 clock hours in the first and second semesters, and 390 in the third and fourth semesters. By applying the conversion formula, the school determines that the number of credit hours for SFA purposes is 11 for the first two semesters, and 13 for the last two semesters.

$$\frac{330 \text{ clock hours}}{30} = 11 \text{ credit hours for SFA purposes}$$

$$\frac{390 \text{ clock hours}}{30} = 13 \text{ credit hours for SFA purposes}$$

Total clock hours in the program is 1440. Because the program is longer than 15 weeks and contains more than 480 clock hours of instruction, the program remains an eligible program, provided it is otherwise eligible (see page 3-10). However, for the first two semesters of the program, students are eligible for payment for only 11 credit hours of instruction. Because this is less than the full-time student minimum of 12 credit hours, students who attend the first two semesters are eligible to be paid for only three-quarter time attendance.

Units of measurement—clock hours vs. credit hours

A student's period of attendance is measured according to several commonly accepted academic standards. A clock hour is based on an actual hour of attendance, though each hour may include a 10-minute break. Credit hours are typically based on two hours of homework for each hour of class attendance.

A school is not permitted to count more than one clock hour per 60-minute period; in other words, a school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments. The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours). Seven real-time attendance hours *may not* count for more than seven clock hours.

A school is not an eligible institution if the school violates the 85/15 Rule (applicable to proprietary schools only), the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, or the Ability-To-Benefit Student Limitation.

School calculations must be attested to by CPA

All of these requirements involve certain percentage calculations, which are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. In the case of the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, and the Ability-To-Benefit Student Limitation, a calculation performed by the school must be attested to by the certified public accountant (CPA) who prepares the school's audited financial statement or its SFA compliance audit. The CPA's report must be part of the audit record and must include a recalculation if a school's initial calculation was in error. The CPA's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 85/15 Rule are discussed below.

School required to notify the Department

For each of the requirements and limitations discussed below, the school must notify the Department of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver. Except for the specific notification requirements under the 85/15 Rule, the school's notification must occur by July 31 following the end of an award year. If a school fails to meet any of these requirements, the school loses its eligibility to participate in any SFA Program on the last day of the most recent award year. The school must immediately stop awarding SFA Program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its SFA participation (for more information on requirements when a school's SFA participation ends, see Section 9).

Requirements to regain eligibility

To regain institutional eligibility lost due to the requirements or limitations listed below, the school must demonstrate its compliance with all eligibility requirements and its ability to stay outside prohibited limits for at least one award year. Further, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

The 85/15 rule

To be eligible for SFA participation, a proprietary institution may derive no more than 85% of its revenues from the SFA Programs. As specified in 34 CFR 600.5(d), a school must determine its revenue percentages using the following formula:

Fraction for 85/15 Rule calculation

$$\frac{\text{SFA Program funds (except SSIG or FWS) used for tuition, fees, and other institutional charges to students}}{\text{The sum of revenues generated by the school from: (1) tuition, fees, and other institutional charges for students enrolled in eligible programs; plus (2) school activities* necessary for the education or training of students enrolled in those eligible programs}}$$

*to the extent not included in tuition, fees, and other institutional charges

Refunds not counted in fraction

In determining whether a school satisfies the 85/15 Rule, the totals used in the fraction do *not* include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment. Charges for books, supplies, and equipment are not included in the fraction unless the amount is part of the tuition, fees, or other institutional charges.

In figuring what SFA funds were used to pay tuition, fees, and other institutional charges, a school may assume that any SFA funds disbursed (or delivered) to or on behalf of a student were used for such costs, unless those costs were otherwise paid by

- ◊ grant funds provided by non-federal public agencies,
- ◊ grant funds provided by independent private sources, or
- ◊ funds from qualified government agency job training contracts.

Revenues from school activities

In figuring revenues generated by school activities, a school may include only revenue from activities that are conducted on campus or at a facility under the control of the school, that are performed under the supervision of a faculty member, and that are necessary for the training of its students who are enrolled in an eligible program. The school's "85/15 Rule" calculation must be attested to by a CPA, as discussed previously.

Most recently completed fiscal year

A proprietary institution must determine whether it satisfied the 85/15 Rule during its most recently completed fiscal year. For example, for schools using a calendar year as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 1997. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 1998.

Failure to meet the 85/15 Rule

Schools that fail to satisfy the 85/15 Rule lose their eligibility on the last day of that fiscal year. As mentioned earlier, the school must immediately stop awarding SFA Program funds and comply with the provisions of 34 CFR 668.26. Schools have 90 days after their most recently completed fiscal year has ended to report to the Secretary if they did not satisfy the 85/15 Rule for that period.

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A proprietary school is required to disclose the percentage of its revenues derived from the SFA Programs (that the school received during the fiscal year covered by the audit) as a footnote to its audited financial statement (see Section 6).

Notification to the Department

A school must notify the Department of its failure to satisfy the 85/15 Rule at one of the following addresses:

By regular mail

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By overnight mail or courier delivery

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20407

By Internet

IPOS@ed.gov

Correspondence Course Limitation

An otherwise eligible institution is *not* eligible for SFA Program participation if, during the school's latest complete award year, more than 50% of its *courses* are taught through correspondence.[4]

[redacted]

Correspondence Course: A home study course provided to students who are not physically attending classes at the school; a course that is part residential and part correspondence. (Includes video courses unless students physically in attendance at the school receive the same video instruction in the same award year.)

Telecommunications Course: A course offered principally through television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave, satellite, or audio or computer conferences. (Includes video courses if students physically attending the school also receive the video course in the same award year.)

[redacted]

[4] A telecommunications course is considered to be a correspondence course if the sum of telecommunications courses and other correspondence courses provided by the school during its latest complete award year was equal to or more than 50% of the total courses provided that year.

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This requirement does not apply to an institution that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

Exceptions for certain institutions

In calculating the percentage of "correspondence courses," a correspondence course can be either a complete educational program offered by correspondence or a single course offered by correspondence that is part of a larger, on-campus (residential) program. Regardless of how many times a course or program is offered during the award year, it is counted only once. (A course offered both through correspondence and on campus is counted as two courses when determining the total number of courses offered by the school.) The school's Correspondence Course calculation must be attested to by a CPA, as discussed previously.

For information about a student's eligibility for SFA Program funds while enrolled in a correspondence course and cost of attendance information, see Chapter 2.

Correspondence Student Limitation

An otherwise eligible institution is also *not* eligible for SFA Program participation if, for its latest complete award year, 50% or more of its regular *students* are enrolled in correspondence courses. "Telecommunications courses" may be considered to be correspondence courses (see the definitions and the footnote on the previous page). The rules for calculating this percentage are the same as given previously for the calculation of the correspondence course percentage. The calculation should reflect a straight "head count" of students. That is, each regular student must be counted regardless of full-time or part-time attendance and will be counted only once during an award year, regardless of withdrawal and reenrollment. (Students who enrolled, withdrew, and subsequently received a full refund should not be included in the count.) The school's Correspondence Student calculation must be attested to by a CPA, as discussed previously.

Head count

This requirement is waived for a school that offers a two-year associate degree or four-year baccalaureate degree program if the school demonstrates that the students enrolled in correspondence courses receive no more than 5% of the total SFA funds received by all of the school's students. This requirement also does not apply to an institution that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

Exception for certain institutions

Incarcerated Student Limitation

An otherwise eligible institution is *not* eligible for SFA Program participation if, for its latest complete award year, 25% or more of its regular students are incarcerated.[5] If requested by the school, the Department may waive this limitation for a nonprofit school offering a two-year associate degree or a four-year baccalaureate degree program. For the purposes of this waiver, "nonprofit" includes public institutions. (For information on the eligibility of incarcerated students for SFA assistance, see Chapter 2.)

Waiver possible

For a school offering *only* four-year or two-year programs that lead to bachelor's or associate degrees, respectively, the waiver applies to all programs offered at the school. However, if the school offers other types of programs, the waiver would apply to any of the school's four-year and two-year programs leading to a bachelor's or associate degree, respectively, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by a CPA, as discussed previously.) If granted, the waiver is effective as long as the school continues to meet the waiver requirements each award year.

Ability-to-benefit Limitation

A school does *not* qualify as an eligible institution if, for its latest complete award year, 50% or more of its regular enrolled students had neither a high school diploma or its equivalent (here called ability-to-benefit students), unless the school provides a four-year bachelor's degree program or two-year associate degree program.

Waiver possible

The Department may waive this limitation for a nonprofit school if the school demonstrates, to the Department's satisfaction, that it exceeds the limitation because it serves significant numbers of ability-to-benefit students through government agency contracts, such as a contract under the Job Training Partnership Act. A school will not be granted this waiver if more than 40% of the school's enrolled regular students do not have a high school diploma or equivalent and are not served through contracts with federal, state, or local government agencies. The purpose of the contracts must be to provide job training to low-income individuals who are in need of the training. If granted, the waiver extends as long as the school continues to meet the waiver requirements each award year. The school's "Ability-To-Benefit" calculation must be attested to by a CPA, as discussed previously.

[5] An "incarcerated student" is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm or other similar correctional institution. (Does not include detention in a halfway house, home detention, or weekend-only sentences.)

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

Subpart E of the Institutional Eligibility regulations establishes the eligibility criteria for foreign schools. In general, by law, a foreign school can participate in the FFEL Programs if the foreign school is comparable to an institution of higher education (as defined earlier in this section) and has been approved by the Department. Additionally, the regulations added specific requirements for foreign medical schools.

A "foreign medical school" is defined as a school that is not located in a state, and is qualified and listed as a medical school in the most current *World Directory of Medical Schools*, published by the World Health Organization (WHO).

To be eligible for FFEL participation, a foreign medical school must meet the same requirements as other foreign schools and must also

Requirements for foreign medical schools

- ◊ provide, and require its students to complete, a medical program of clinical and classroom instruction not less than 32 months long that is supervised closely by members of the school's faculty and that is provided either
  - Outside the U. S., in facilities adequately equipped and staffed to afford students comprehensive clinical and classroom medical instruction, or
  - In the U. S., through a training program for foreign medical students that has been approved by all medical licensing boards and evaluating bodies whose views are considered relevant by the Department;
- ◊ have graduated classes during each of the two years preceding the school's application for eligibility;
- ◊ for the above-mentioned medical program, employ only faculty members whose credentials are equivalent to the credentials of faculty teaching similar courses in U.S. medical schools; and
- ◊ for a public or private nonprofit school, be accredited by a recognized agency, *or* for all other schools, by an authorized agency whose standards have been determined by a panel approved by the Department to be comparable to U.S. standards of accreditation for medical schools.

In addition, the law specifies the following requirements for foreign medical schools

- ◊ at least 60% of the full-time regular students enrolled in the previous year and 60% of the most recent graduates must be other than U.S. citizens or nationals, permanent residents, or eligible noncitizens of the United States, and
- ◊ at least 60% of the students and graduates (for the past three years) who took any step of an exam from the Educational Commission for Foreign Medical Graduates (ECFMG)—including the ECFMG English test—in the previous year must have received a passing score.

A school not meeting all the 60 percent requirements can still be eligible if the school's clinical training program was approved by a state as of January 1, 1992 and is currently approved. Continued eligibility is dependent upon annual submission of the data and information that demonstrates compliance with these 60% requirements (or the exception).

REPORTING INFORMATION ON FOREIGN SOURCES

The law requires certain postsecondary schools (whether or not the school is eligible to participate in the SFA Programs) to report ownership or control by foreign sources. The law also requires these postsecondary schools to report contracts with, or gifts from the same foreign source that, alone or combined, have a value of $250,000 or more for a calendar year. These reports must be filed with the Department by the January 31 or July 31 (whichever is sooner) after the date of receipt of the gifts, date of the contract, or date of ownership or control. The January 31 report should cover the period July 1-December 31 of the previous year, and the July 31 report should cover January 1-June 30 of the same year.

Definitions of gift & contract

[redacted]

Gift: Any gift of money or property.

Contract: Any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.

[redacted]

Who must report

A school (and each campus of a multicampus school) must report this information if the school

- ◊ is legally authorized to provide a program beyond the secondary level within a state,

- ◊ provides a program for which it awards a bachelor's degree or a more advanced degree, or provides at least a two-year program acceptable for full credit toward a bachelor's degree,

- ◊ is accredited by a nationally recognized accrediting agency, and

- ◊ is extended any federal financial assistance (directly or indirectly through another entity or person), or receives support from the extension of any federal financial assistance to the school's subunits.

Contents of disclosure report

Each disclosure report to the Department must contain

- ◊ for gifts received from or contracts entered into with a foreign source other than a foreign government, the aggregate dollar amount of the gifts and contracts attributable to a particular country;[6]

- ◊ in the case of a school that is owned or controlled by a foreign source, the identity of the foreign source, the date on which the foreign source assumed ownership or control, and any changes in program or structure resulting from the change in ownership or control;

- ◊ for gifts received from or contracts entered into with a foreign government, the aggregate amount of the gifts and contracts received from each foreign government;

- ◊ for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (other than a foreign government), the amount, date of receipt of the gift or date of the contract, and description of the conditions and restrictions;

- ◊ for restricted or conditional gifts received from, or restricted or conditional contracts entered into with a foreign government, the amount, the date of receipt of the gift or date of the contract, a description of the conditions or restrictions, and the name of the foreign government.

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[6]The country to which a gift or a contract is attributable is the country of citizenship; or, if unknown, the principal residence for a foreign source who is a "natural person" and the country of incorporation, or, if unknown, the principal place of business for a foreign source which is a legal entity.

Restricted or conditional gift or contract

Any endowment, gift, grant, contract, award, present, or property of any kind which includes provisions regarding

- ◊ the employment, assignment, or termination of faculty;
- ◊ the establishment of departments, centers, research or lecture programs, or new faculty positions;
- ◊ the selection or admission of students; or
- ◊ the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.

In lieu of the reporting requirements listed above:

- ◊ If a school is in a state that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the state may be filed with the Department. The school must provide the Department with a statement from the appropriate state official indicating that the school has met the state requirements.
- ◊ If another department, agency, or bureau of the Executive Branch of the federal government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

Where to send reports

Reports should be sent to the Department's Institutional Participation and Oversight Service at one of the addresses on page 3-20. Submissions should be marked "Foreign Gift Report."

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in federal district court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

All information provided by schools under this law is open to inspection and duplication by members of the public.

Section 2 General Participation Requirements

A school that wishes to participate in the SFA Programs must meet certain requirements for participation. For example, a school must enter into a program participation agreement and meet requirements for financial responsibility and administrative capability. In addition, a school's academic year and payment periods must conform to specific definitions so that SFA Program funds are disbursed properly. Participation standards are important because all SFA funds received by a participating school are held in trust by that school for the intended student beneficiaries (except for allowed administrative expense reimbursement). Most general requirements for SFA Program participation are found in 34 CFR Part 668.

Schools are permitted to contract with consultants for assistance in administering the SFA Programs. However, the school ultimately is responsible for the use of SFA funds and will be held accountable if the consultant mismanages the programs. (See the "Contracts with Third-Party Servicers" discussion on page 3-47 for more details.)

THE PROGRAM PARTICIPATION AGREEMENT

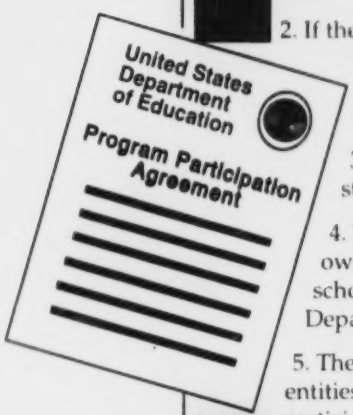
An eligible school must enter into a Program Participation Agreement (PPA) with the Department to participate in any SFA Program other than the State Student Incentive Grant (SSIG) Program or the National Early Intervention Scholarship Program (NEISP). The PPA covers the school's participation in the following programs: Pell Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Federal Perkins Loan (Perkins), and Federal Family Education Loan (FFEL). Currently, a school that participates in the Direct Loan Program does so through an addendum to the PPA.

Purpose & scope of the PPA

Under the PPA, the school agrees to comply with the laws and regulations governing the SFA Programs. When entering into a PPA, the school must demonstrate that it is financially responsible and administratively capable of providing the education it promises and of properly managing the SFA Programs. After being certified for SFA participation, the school must administer SFA funds in a prudent and responsible manner. Under certain circumstances, for example, when a school stops providing education, a school's PPA automatically terminates (for more information, see Section 9.)

PPA requirements

The PPA lists some of the basic administrative requirements of SFA participation. Some of these are discussed in more detail in this or other areas of this *Handbook*, as noted below:



1. The school will provide timely information on its administrative capability and financial responsibility to the Department, and to the appropriate state, guaranty, and accrediting agencies. (Section 2)

2. If the school advertises job placement rates to attract students, it must provide a prospective student with any relevant information on state licensing requirements for the jobs for which the offered training will prepare the student.

3. The school cannot deny SFA funds on the grounds that a student is studying abroad in an approved-for-credit program. (Section 5)

4. To begin participation in the FFEL Programs (or if a school changes ownership or changes its status as a parent or subordinate institution), the school must develop a default management plan for approval by the Department and must implement the plan for at least two years. (Chapter 9)

5. The school must acknowledge the authority of the Department and other entities to share information regarding fraud, abuse, or the school's approval to participate in the SFA Programs. (Section 6)

6. The school may not knowingly employ or contract with (in the administration of or receipt of SFA funds) any individual, agency, or organization that has been convicted of or pled guilty or *nolo contendre* to a crime or was judicially determined to have committed fraud involving the misuse of SFA funds.

7. The school must, in a timely manner, complete surveys under the Integrated Postsecondary Education Data System (IPEDS) or any other data collection effort of the Department.

8. If the school offers athletically related student aid, it must annually compile data concerning its revenues and expenses related to athletics; this data must be audited every three years and made available to the Department and to the public. (Section 8)

9. The school cannot penalize in any way a student who is unable to pay institutional costs due to compliance with the SFA Program requirements, or due to a delay in federal aid disbursement caused by the school.

10. The school cannot pay, nor contract with any entity that pays, commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for SFA funds) to persons engaged in recruiting, admission, or financial aid administration.

11. The school must comply with the requirements of the Department, as well as those of accrediting agencies. (Section 1)

12. The school must have a fair and equitable refund policy in accordance with regulations. (Section 4)

13. Schools cannot charge for processing or handling any application or data used to determine a student's SFA eligibility. For instance, the school may not charge (or include in the student's cost of attendance) a fee to certify a loan application, complete a deferment form, process a Pell Grant payment, verify an application, or send or request a financial aid transcript.

14. A student may always use the *Free Application for Federal Student Aid* (FAFSA) to apply for SFA funds. However, a school may require additional data that are not provided on the federal form to award institutional or state aid. Institutional charges for collecting such data must be reasonable and within marginal costs.

The above list is not exhaustive; schools must carefully review *all* of the requirements listed on their PPA and those specified in 34 CFR 668.14. In addition, a school must meet any requirements for participation specific to an individual SFA Program.

School must make GED program available

Another participation requirement found in the PPA requires a school that admits students without a high school diploma or its recognized equivalent (based on their ability to benefit) to make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The GED program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful in preparing its students to obtain a GED—such programs include GED programs that are conducted by state and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the success.

The law does not require a school to verify that a student is enrolled in a GED program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admissions requirement. A student may not receive SFA funds for the GED program although he or she may be paid for postsecondary courses taken at the same time as the GED coursework, including remedial coursework[1] *at the secondary level or higher*.

[1]It is the school's responsibility to determine whether a remedial program is at the secondary level. However, if the state, the school's accrediting agency, or the state agency recognized for the approval of public postsecondary vocational education determines that a remedial program is at the elementary level, the school must abide by that determination. For more on remedial coursework, including the admission of ability-to-benefit students, see Chapter 2.

When a school signs the PPA, it also agrees to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations (CFR), which apply to all students in the educational program, not just to SFA recipients.

FINANCIAL RESPONSIBILITY

Standards of financial responsibility

In order to participate in the SFA Programs, a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. A school must submit an audited financial statement as part of a combined submission that also includes the school's compliance audit. The combined submission must be submitted to the Department within six months of the end of the school's fiscal year. See Section 6 for more information on required audit submissions.

A notice of proposed rulemaking (NPRM) published September 20, 1996, proposed implementation of new financial responsibility standards. In response to public comment, the comment period on some portions of the NPRM was extended through April 14, 1997. Final regulations (scheduled to be published by December 1, 1997) had not been published at the time this Handbook went to print. Once final regulations have been published, the Department will issue further guidance on financial responsibility standards as necessary in the form of "Dear Colleague" letters.

STANDARDS OF ADMINISTRATIVE CAPABILITY

Required electronic processes

As directed in the law, the Department has developed procedures and requirements concerning the assessment of a school's administrative capability, taking into consideration the school's past SFA-related performance.

Final regulations published November 29, 1996 added a standard of administrative capability. To be considered administratively capable to participate in an SFA Program, a school must participate in all electronic processes that are required by the Department, if the processes are provided at no substantial charge to the school.

The use of electronic processes is integral to achieving the Project EASI goal of an integrated student aid delivery system for students and schools. (For more information on Project EASI, see page 3-38.) The Department believes that widespread use of electronic processes will result in reduced burden on students and schools, provide a higher level of service to students, and result in improved school administration and accountability.

On September 19, 1997, the Department published a Notice in the *Federal Register* that identified required electronic processes for 1998 and 1999, including the system requirements for participation in the electronic processes. The Notice also listed training sessions offered by the Department to assist schools with their implementation of the required processes.

Specific information on the implementation of the required electronic processes was not available at the time this Handbook went to print. The Department will provide additional guidance in the form of an Action Letter. When issued, this up-to-date information will also be available on the SFA BBS.

Further guidance to be provided in Action Letter

The table that follows list the required electronic processes and the deadline dates for implementation. A school that fails to participate in any of these processes by the required deadline date is considered by the Department to lack administrative capability to administer the SFA Programs properly.

Required Electronic Processes and Deadline Dates

Deadline Date	Designated Electronic Processes
January 1, 1998	• Participate in the Title IV Wide Area Network (TIV WAN) • For the 1998-99 Processing Year[1] and Beyond: ✓ Receipt of Institutional Student Information Records[2] ✓ Adding your school to the Central Processing System Record (CPS) ✓ Online Access to the National Student Loan Data System (NSLDS)
July 1, 1998	• Access to the "Info for Financial Aid Professionals" website or the Student Financial Assistance Bulletin Board System (SFA BBS) • Submission of the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement, and changes) through the Internet • Submission of the Fiscal Operations Report and Application to Participate (FISAP) to the Title IV Wide Area Network (TIV WAN). Diskettes will be eliminated.
July 1, 1999	• For the 1999-2000 Award year and Beyond: ✓ Report Federal Pell Grant Payments Electronically or on Magnetic Tape or Cartridge to the Title IV Wide Area Network (TIV WAN). Diskettes will be eliminated. • Submit Student Status Confirmation Report (SSCR) data Electronically or on Magnetic Tape or Cartridge to the National Student Loan Data System (NSLDS). Diskettes will be eliminated. • Submit Federal Perkins Loan Data Electronically or on Magnetic Tape or Cartridge to the National Student Loan Data System (NSLDS). Diskettes will be eliminated.

[1]The application processing cycle lasts 18 months. For the 1998-99 award year, application processing begins in January 1998 and applications for that year will be accepted until June 30, 1999.

[2]The Department realizes that processing SFA Program funds upon the receipt of an ISIR, rather than the paper Student Aid Report (SAR), may be new for some schools. In order to provide these schools sufficient time to implement electronic procedures to receive ISIRs, the Department will not assess any penalties against a school that is not able to comply with this requirement on January 1, 1998. However, beginning July 1, 1998, all schools are expected to be receiving ISIRs electronically for any SFA applicant who has listed that school on the applicant record in the central processing system. The Department will begin assessing appropriate penalties at that time for schools found not to be awarding SFA Program funds to eligible applicants based on the receipt of the ISIR.

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Technical specifications

The Technical Specifications table provides schools with information regarding hardware and software requirements that will enable them to participate in these designated electronic processes. Some of the specifications are not needed to meet the current requirements; however, they will be required in the future as the SFA Program delivery system is upgraded. Therefore, schools should include in their automated data processing budgets, on a regular basis, plans for upgrades and enhancements to their system.

The left column of the Technical Specifications Table provides information on the current minimum configuration needed in order for a school to maintain a basic level of electronic efficiency. The right column provides information on the configuration that will be needed to support the electronic requirements beginning in January 1999. Although many schools will be able to participate electronically using the current minimum configuration, it is recommended that schools that need to acquire resources in order to meet the requirements invest in the equipment and software that will be needed in the future (January 1999). Schools that currently participate electronically should prepare to upgrade

Technical Specifications

	Current Minumum Configuration (Depending Upon Volume and Usage)	Minumum Configuration Required by January 1999
Equipment	IBM or fully IBM-compatible PC	IBM or fully IBM-compatible PC
	66 MHZ Processor 486DX2	200 MHZ Pentium Processor or comparable
	16 MB RAM	64 MB RAM
	300 MB Hard Disk Space	4.0 GB SCSI Hard Drive
	14,400 bps or higher baud Hayes or caparable Modem	56K Analog Modem
	3.5"/1.44 MB Diskette Drive	3.5"/1.44 MB Diskette Drive
	SVGA Monitor	SVGA Monitor
	Standard Keyboard	Windows 95 Keyboard
	Printer capable of printing on standard paper (8 1/2" x 11")	Laser printer capable of printing on standard paper (8 1/2" x 11")
	4x CD-ROM Drive with sound board[1]	12x CD-ROM Drive with sound board[1]
Software	MS-DOS version 6.2 or higher; Windows 3.1, 3.11 or 95	32 bit operating system (Windows 95 or Windows NT 4.x)
	Internet Service Provider (ISP)[2]	Internet Service Provider (ISP)[2]
	Netscape Navigator 3.0 or 3.01 (domestic) or web browser[3]	Netscape Navigator 3.0 or 3.01 (domestic) or web browser[3]
Phone Line	Dedicated phone line	Dedicated phone line
Diskettes	3.5" high density double-sided diskettes	3.5" high density double-sided diskettes

[1]Required if school wants to use the EDExpress Tutorial and the AWARE software.

[2]Will be necessary to access the "Info for Financial Aid Professionals" website or the Student Financial Assistance Bulletin Board System and for submission of the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement and changes).

[3]Currently, must use Netcape Navigator 3.0 or 3.01 (domestic) in order to utilize FAFSA on the Web. The Department is currently testing other web browsers that will be made available to the public in the near future.

their equipment and software in time to meet the January 1999 requirements. When reviewing these specifications, schools should be aware that capacity requirements (processor speed, RAM, hard drive storage, etc.) are greatly affected by specific factors at each school, including which EDExpress functions the school uses, number of records processed, and institutional database interfaces.

Finally, schools should particularly note that, beginning on January 1, 1999, for the 1999-2000 processing year, the Department's electronic processes will require a Windows 95 or Windows NT operating system. Neither the Disk Operating System (DOS) or earlier versions of Windows will be supported.

As electronic processes are announced for implementation, the Department will provide software where needed. A school is not restricted to using software provided by the Department to participate in an electronic process required by the Department. The school may also use software developed by the school or its vendor in accordance with specifications provided by the Department.

Coordination of aid

Another standard of administrative capability requires that an eligible school designate a capable individual[2] to administer the SFA Programs and to coordinate aid from these programs with the school's other federal and nonfederal student aid programs. The school's administration must be coordinated in such a way that all the information it receives concerning a student's SFA eligibility—from any school office— is communicated to the financial aid administrator. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), a financial aid administrator must be aware of all sources of aid at the school and must be able to coordinate with all financial aid programs a school offers to ensure that a student's aid does not exceed his or her need.

Consistency of student information

The school must have a system of identifying and resolving discrepancies in the SFA-related information received by various school offices. Such a system would include a review of all financial aid and need analysis documents, federal and state income tax forms, and documents relating to admissions, citizenship, and previous educational experience. For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application and are counted as a resource for the campus-based programs and estimated financial assistance for the Direct Loan and FFEL programs. As another example, the school's admissions or registrar's office must

[2]An individual is "capable" if he or she is certified by the state (in which the school is located), if state certification is required. Other factors include the individual's successful completion of SFA Program training provided or approved by the Department, and previous experience and documented success in SFA Program administration.

provide the financial aid office with any information that it has affecting a student's eligibility—the student's enrollment in an ineligible program, for instance, or past educational experience.

OIG referrals

If the school finds that a student may have engaged in fraud or other criminal misconduct in applying for SFA funds, it must refer this information to the Department's Office of Inspector General (OIG), which will in turn notify other officials as appropriate. (Please note that this requirement does not preclude the school from notifying other law enforcement agencies as necessary.) Some examples of fraudulent information include the use of false identities, forgery of signatures or certifications, and false claims of income, citizenship, or independent student status.

Counseling

The school must provide adequate financial aid counseling to all enrolled and prospective students and their families. Counseling must include, at a minimum, information about the source and amount of each type of aid offered, the method by which aid is determined and disbursed or applied to a student's account, and the rights and responsibilities of the student associated with the student's enrollment and receipt of financial aid. This information should include a description of the school's refund policy, satisfactory progress standards, and any other conditions or factors that may affect the student's aid package. The school must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see Chapter 6 (Perkins Loans), Chapter 10 (FFEL), Chapter 11 (Direct Loans) and Direct Loan entrance and exit counseling guides.

Adequate staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional, paraprofessional, and clerical personnel. An "adequate" staff depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be completely insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate in the SFA Programs.

Separation of function

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the SFA Programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of *authorizing payment* and *disbursing or delivering funds* so that no one person or office exercises both functions for any student receiving SFA funds. Small schools are not exempt from this requirement even

though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization **and** disbursement. These two functions must be performed by individuals who are not members of the same family[3] and who do not together exercise substantial control[4] over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

Satisfactory progress and financial aid history

Two institutional requirements are directly related to student eligibility: satisfactory academic progress and financial aid history. An eligible school must have a policy to measure the academic progress of its students, according to the elements of a reasonable standard of satisfactory progress as provided in the regulations. In addition, when a student transfers from one school to another, the new school must receive a financial aid history for the previous schools the student has attended before it disburses Federal Pell Grant, Direct Loan, FFEL, or campus-based funds to the student or certifies a PLUS Loan application. See Chapter 2 for an overview of satisfactory progress and financial aid history requirements.

High default rates

A school is not administratively capable when

- the cohort default rate for Perkins Loans made to students for attendance at the school exceeds 15% (see Chapter 6 for details), or
- the cohort default rate for Stafford/SLS loans or for Direct Loans made to students for attendance at the school equals or exceeds 25% for one or more of the three most recent fiscal years (see Chapters 10 and 11 for details).

If a school is not administratively capable *solely* because of a high default rate, the Department will provisionally certify the school.

In addition to affecting a school's administrative capability and limiting the school's participation in the SFA Programs, a high default rate may make a school ineligible to participate in the FFEL or Direct Loan programs or cause the Department to limit, suspend, or terminate a school's participation in the SFA Programs. See Chapters 10 and 11 for detailed information on default requirements.

[3]A member of an individual's family is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse.

[4]Substantial control is direct or indirect control over at least 25% ownership interest (either alone or with family members); representation (under voting trust, power of attorney, or proxy) of a person who individually or with a group has at least 25% ownership interest; status as CEO or other executive officer or member of a board of directors of an entity holding at least 25% ownership interest.

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Default management plan required

In the past, a school with a Stafford/SLS default rate of specified percentages was required to implement some or all of the default reduction measures of 34 CFR Part 668, Appendix D of the General Provision regulations. Final regulations published December 1, 1995 that revised several aspects of the Department's default prevention and reduction measures removed these requirements beginning with the 1996-97 award year. However, new schools are still required to develop a default management plan prior to certification. Also, a school that undergoes a change in ownership that results in a change in control, or a school that changes its status as a main campus, branch campus, or additional location must also develop a default management plan.

Calculating the withdrawal rate

New schools (schools that seek to participate in an SFA Program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of "enrolled" does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, or is expelled from the school or receives a refund of 100% of his or her tuition and fees (less any permitted administrative fee). A student who withdraws from one or more courses or programs, but does not withdraw entirely from the school, does not meet the definition of "withdrawn." Note that the 33% withdrawal rate applies to all enrolled, regular students—not just to SFA recipients.

Enrolled— a student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Debarment And Suspension Certification

Debarment of school or its principals

Debarment and suspension requirements are also a part of the administrative capability standards. Debarment and suspension actions are imposed against individuals who the government determines constitute a current risk to federal agencies based on the individual's actions. The Department gives effect to debarment and suspension actions by other agencies that have been imposed under procedures that provide due process protections equivalent to those afforded by the Department.

Before a school may receive Pell Grant or campus-based funding, a school must certify that neither the school nor its employees have been debarred or suspended by a federal agency. This certification is on the PPA and, for

schools participating in the campus-based programs, is included on ED Form 80-0013, which is a part of the FISAP package mailed to schools each summer.

If the school or its principals have been suspended, debarred, or proposed for debarment by one federal agency, the school is no longer eligible to participate in *any* SFA Program. The principals of the school include the owners, the directors, officers, partners, employees, or any other person with primary management or supervisory responsibilities. A principal may also be someone who is not employed by the school, but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or campus-based funds).

If a school discovers that a person employed in a primary management or supervisory capacity has been suspended or debarred by a federal agency, the school must remove that person from such a position or risk losing its SFA eligibility.

Similar debarment and suspension procedures apply to debarments and suspensions of lenders or loan servicers under the FFEL Programs.

Checking prospective employees or contractors

To protect itself, a school might ask prospective employees and contractors about previous debarment or suspension, either in person or on a written application. A school may also call the Department to find out if an individual or organization is on the Nonprocurement List. The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's SFA eligibility, so long as that person is not involved in any covered transactions. The regulations list the particular transactions from which a debarred or suspended entity is excluded under the SFA Programs.

"Lower-tier covered transactions"

A school must not enter into *lower-tier covered transactions* with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is $25,000 or more. (The required certification clause is given on page 25 of "Dear Colleague" letter GEN-89-21.) The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

PROJECT EASI

Project EASI (Easy Access for Students and Institutions) is an initiative of the Department to pursue a collaborative effort among a diverse group of government, business, and educational leaders to reengineer the postsecondary student aid delivery system to meet the needs of its primary customers, the students and their families. Many of the initiatives of Project EASI, such as a definition of a common payment period for all SFA Programs and the required use of the Department's electronic services by schools, will affect the participation of schools. The reengineered delivery system will meet the needs of students and their families by providing an integrated system to facilitate the ability of students and their families to plan for postsecondary education, choose among postsecondary educational programs and schools, and finance their choices. This integrated system will be available for all users of the delivery system including students and their families, state agencies, and others. Project EASI will reduce delivery system costs to all participants, reduce burden (including regulatory burden), reduce fraud and system vulnerability, and enhance management capabilities of the Department and other users of the system, including schools and states.

Key elements of Project EASI

The following key elements will be part of a reengineered student aid delivery system:

- ◊ Every student will have his or her individual student account. The individual student account will contain all the student's data in the system, and all activity in the system concerning the student will be processed through his or her individual student account. Individual student accounts will be the basis for integrating the delivery system.

- ◊ A student will be able to provide current information to, and receive current information from, all system users (for example, his or her school) through his or her individual account.

- ◊ The data in the individual student accounts will reflect standardized data definitions for all system users, and data reported using common reporting records.

- ◊ The delivery system will not be program specific; it could be used to deliver funding under any student assistance program.

- ◊ To the extent practicable, the delivery system will use advanced technology to automate data processing and will be a paperless system.

◊ Strict security, such as encryption wand controlled access to the data, will be designed as part of the system.

Additional information, including a more detailed description of Project EASI, can be found at http://easi.ed.gov on the Project EASI World Wide Web home page.

DEFINITION OF A PAYMENT PERIOD

There is one definition of a payment period that is applicable to all SFA Programs, except FWS. The common definition is integral to requirements for the administration of SFA Program funds. For example, all SFA Program disbursements must be made on a payment period basis (for more information, see Section 3). Note that FFEL and Direct Loan disbursements must still be made in accordance with the specific disbursement rules for those programs (see Chapter 10 for specific information on FFEL disbursements, and Chapter 11 for specific information on Direct Loan disbursements).

This definition of a payment period was included in final regulations published November 29, 1996. The definition is effective for loan periods beginning on or after July 1, 1997 for the FFEL and Direct Loan programs. It is effective on or after July 1, 1997 for the Pell Grant, FSEOG, and Perkins Loan programs. However, a school was permitted to use the old Pell Grant disbursement rules for cross-over payment periods beginning prior to but ending after July 1, 1997.

Under the payment period definition, there are two sets of requirements: one for term-based credit hour programs, and one for nonterm credit hour programs and all clock hour programs. There is no separate definition for clock hour programs that are offered in terms.

For a program offered in semester, trimester, quarter, or other academic terms and measured in credit hours, the payment period is the term. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal payments. This is a change for any quarter-based school that has been disbursing the loan funds for all three quarters in two disbursements.

Term-based credit hour programs

Program offerred in...	Payment Period is...
• semester	semester
• trimester	trimester
• quarter	quarter
• other academic term	other academic term

Nonstandard terms

Programs that are offered in modules are not counted as programs measured in terms. The phrase "other academic terms" (also known as nonstandard terms) refers to those structured educational intervals at a school that do not fit into a normally defined semester, trimester, or quarter term. For example, other academic terms could include six five-week terms.

Payment periods for programs measured in credit hours without terms and all clock hour programs vary depending on whether the length of the program is

- ◊ one academic year or less,
- ◊ a multiple of a full academic year,
- ◊ longer than an academic year with a remainder shorter than or equal to one half of an academic year, or
- ◊ longer than an academic year with a remainder shorter than an academic year, but longer than one half of an academic year.

Academic year or less

If the program is an academic year or less in length, the first payment period is the period of time in which the student completes the first half of the program, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours.

Nonterm credit hour programs and all clock hour programs of one academic year or less

First payment period

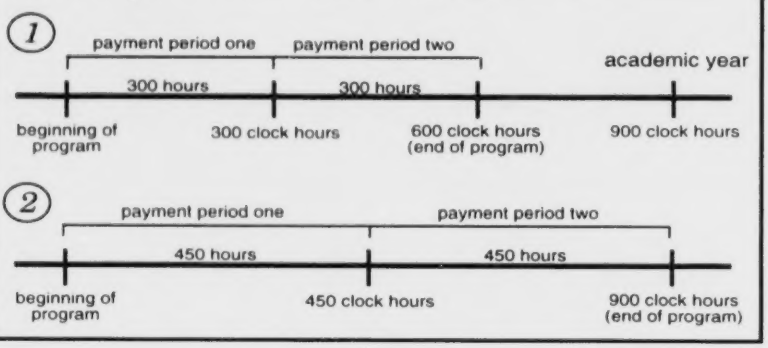
- period of time in which student completes first half of the program

Second payment period

- period of time in which student completes remainder of the program

For example, if a program is 600 clock hours and the academic year is defined as 900 clock hours, the first payment period is the period of time needed for the student to complete the first 300 clock hours. The second payment period would be the period of time needed for the student to complete the last 300 clock hours (see example one on the next page). If the program was equal to the academic year (900 clock hours), the first payment period would be the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the second 450 clock hours (see example two on the next page).

Example- One academic year or less



Multiples of a full academic year

If the program is equal to two or more complete academic years, for the first academic year and any subsequent academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours.

Payment periods for nonterm credit hour programs and all clock hour programs longer than one academic year

Program length	First and subsequent full academic years		Remainder of program	
	First payment period	Second payment period	First payment period	Second payment period
multiples of a full academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	N/A	N/A
longer than academic year, remainder shorter than or equal to one half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes remainder of program	N/A
longer than academic year, remainder shorter than academic year, but longer than half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes first half of remainder of the program	period of time in which student completes second half of remainder of the program

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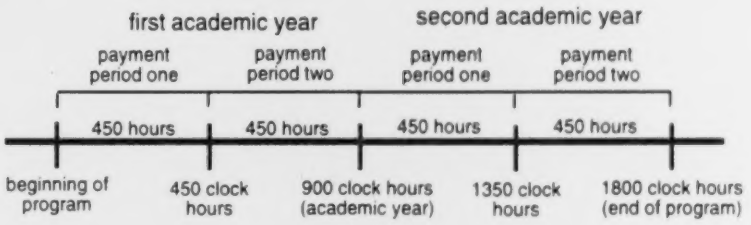
For example, if a program is 1800 clock hours and the academic year is defined as 900 clock hours, the first payment period for both the first and subsequent academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours (see example below).

Example - Multiples of an academic year

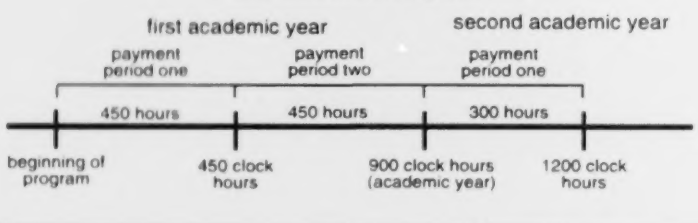


Longer than academic year with remainder

If the program is longer than an academic year, but has a remaining portion of the program that is not equal to an academic year, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours. For the remaining portion of the program, if the remainder is equal to or shorter than one half of an academic year, the payment period is the remaining portion of the program.

For example, if a program is 1200 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first, and only, payment period for the second academic year is equal to the remaining portion of the program (see example below).

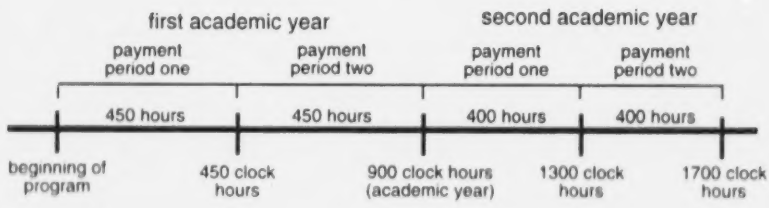
Example - Remainder equal to or shorter than half an academic year



If the remaining portion of the program is more than one half of an academic year, but less than a full academic year, for the remaining portion of the program the first payment period is the period of time in which the student completes the first half of the remaining portion of the program, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the remaining portion of the program as measured in credit or clock hours.

For example, if a program is 1700 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first payment period for the second academic year would be the period of time needed for the student to complete the next 400 clock hours. The second payment period for the second academic year would be the period of time needed for the student to complete the final 400 clock hours (see example below).

Example - *Remainder greater than half an academic year*



In addition, if a student is enrolled in a program measured in credit hours without terms and the school does not award credits until the entire program is complete, the second payment period begins on the later of

- ◊ the calendar midpoint between the first and last scheduled days of class of the program or academic year, or
- ◊ the date, as determined by the school, that the student has completed half of the academic coursework.

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Definition of coursework

The term academic coursework does not necessarily refer to credits. It may refer to the lessons or other measures of learning within a course. For instance, for a course made up of 40 equal lessons, the student reaches the halfway point in the coursework after completing 20 lessons.

- ◊ If the student completes the first 20 lessons before the calendar midpoint of the academic year, the second payment period does not begin until the calendar midpoint.

- ◊ If the student completes the first 20 lessons after the calendar midpoint of the academic year, the second payment period does not begin until the student completes the first 20 lessons.

More than two payment periods

For a program measured in credit hours without terms and any clock hour program, a school may choose to have more than two payment periods per academic year. If so, the length of the payment periods must be substantially equal throughout the academic year. For example, if a school chooses to have three payment periods in an academic year, each payment period must correspond to one-third of the academic year. Each subsequent payment period cannot begin until the student completes the clock or credit hours in the previous payment period.

ACADEMIC YEAR REQUIREMENTS

30-week minimum of instructional time

Every eligible program, including graduate programs, must have a defined academic year that contains a minimum of 30 weeks of instructional time. In addition, for undergraduate programs, over the minimum of 30 weeks of instructional time, a full-time student must be expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours as appropriate. A school may determine the amount of work a full-time graduate or professional student is expected to complete over an academic year.

Determining academic year length

A school may have different academic years for different programs, but must use the same academic year definition (1) for calculating all SFA awards for students enrolled in a particular program and (2) for all other SFA Program purposes, such as the certification of loan deferments. To determine the number of weeks of instructional time, a school must count the period that begins on the first day of classes and ends on the last day of classes or examinations.

Definition of a week

For all programs except those measured in credit hours without standard terms, a "week of instructional time" is any seven day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs. (Instructional time does not include

periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.) The requirements for a "week of instructional time" are similar to those for a "week of instruction" for the eligible program definitions (see page 3-13).

12-hour rule

For educational programs measured in credit hours without standard terms (semesters, trimesters, or quarters), a week of instruction must include at least 12 hours of instruction, examinations, or preparation for examinations within a consecutive seven-day period.

30 calendar-week year assumes class meets 12 hours per week

A school wishing to set its academic year to be only 30 calendar weeks long (for this purpose a calendar week is seven consecutive days) would have to meet an average of 12 hours per week for the 30 calendar-week period. A school with a program that meets less frequently than 12 hours a week would have to meet enough calendar weeks to provide 360 hours of instruction, examinations, or preparation for examinations (30 calendar weeks x 12 hours per week) in order to have a program offered over a full academic year (equivalent to 30 weeks of instructional time).

For example, if a school wants to establish an academic year of 30 weeks of instructional time for a credit-hour, nonterm program that meets 10 hours a week, the school would need to have approximately 36 calendar weeks (36 calendar weeks x 10 hours per week = 360 hours of instruction, examinations, or preparation for examinations) in order to have the equivalent of 30 weeks of instructional time for a full academic year. Therefore, in this example, a student enrolled in this program would not be eligible to take out another Stafford Loan until he or she had completed the required amount of work and 36 calendar weeks had elapsed. A school must also use this calculation to determine when one-third and two-thirds of an academic year have occurred.

Pell calculations

When calculating awards under the Pell Grant Program, a school must always use weeks of instructional time (see Chapter 4). However, the length of the academic year in calendar weeks will probably exceed the number of weeks of instructional time.

Holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, a school may not include a holiday as a day of instruction unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

For more information on the effects of the 12-hour rule on a particular SFA Program, see the relevant program chapter in this Handbook.

Reductions in academic year length

The law permits schools that provide two-year or four-year associate or baccalaureate degree programs to apply to the Department if they want to establish a full academic year of less than 30 weeks of instructional time. The Department is permitted to grant a reduction in the length of an academic year to no less than 26 weeks of instructional time. If a reduction is approved, a school is permitted to have an academic year of less than 30 weeks of instructional time (but no less than 26 weeks of instructional time) without any reduction in the amount of SFA funds that a student enrolled in an eligible program is eligible to receive for an entire academic year.

A reduction is available to schools that want to begin or continue to operate with a reduced academic year on a long-term basis. This reduction must be renewed each time a school is required to apply for recertification.

When evaluating a school's application for a reduction, the Department will consider factors such as

- ◊ the school's compliance with awarding and disbursement procedures based on the academic year requirements of the Higher Education Amendments of 1992,
- ◊ the approval of the academic year by the school's accrediting agency or state agency,
- ◊ the hours of attendance and other coursework that a full-time student is required to complete in the academic year, and
- ◊ any unique circumstances that justify granting the request.

For further details on the information required for submission of a request for a reduction, see 34 CFR 668.3.

If a school is ineligible for a reduction in the length of an academic year because of noncompliance with awarding and disbursement procedures, that school may be eligible if the school makes arrangements with the Department to recalculate awards as necessary and repay any resulting liabilities.

CONTRACTS WITH THIRD-PARTY SERVICERS

Section 668.25 of the General Provisions regulations contains requirements for all participating institutions that contract with third-party servicers. As defined by regulation, a third-party servicer is an individual or organization that enters into a contract (written or otherwise) with a school to administer any aspect of the institution's SFA participation.

Activities included in "servicer" definition

Examples of functions that are covered by this definition include

- ◊ processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- ◊ certifying loan applications, servicing loans, or collecting loans;
- ◊ processing output documents for payment to students, and receiving, disbursing, or delivering SFA funds;
- ◊ conducting required student consumer information services;
- ◊ preparing and certifying requests for advance or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP); and
- ◊ processing enrollment verification for deferment forms or Student Status Confirmation Reports.

Excluded activities

Examples of functions that are not covered by this definition include

- ◊ performing lock-box processing of loan payments,
- ◊ performing normal electronic fund transfers (EFTs),
- ◊ publishing ability-to-benefit tests,
- ◊ performing functions as a Multiple Data Entry Processor (MDE),
- ◊ financial and compliance auditing,

- ◊ mailing documents prepared by the institution, or warehousing institutional records, and
- ◊ providing computer services or software.

Definition of "employee"

An employee of a school is *not* a third-party servicer. For this purpose, an **employee** is one who

- ◊ works on a full-time, part-time, or temporary basis,
- ◊ performs all duties on site at the school under the supervision of the school,
- ◊ is paid directly by the school,
- ◊ is not employed by or associated with a third-party servicer, and
- ◊ is not a third-party servicer for any other school.

Eligible servicer; applicable requirements

A school may only contract with an eligible third-party servicer, as defined by specific regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to SFA Program administration to the Department's Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make required refunds.

If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return all applicable SFA funds and related records to the school.

School is liable

Although an eligible servicer must meet all these and other requirements, the school remains liable for any and all SFA-related actions taken by the servicer on its behalf, under the terms of the contract.

Schools should already have notified the Department of all existing third-party servicer contracts. If a school has not notified the Department, the school must do so by providing the Department with the following information for each third-party servicer with which the school contracts: name, address, employer identification number, telephone number, fax number, and Internet address.

If a school has submitted information regarding its third-party servicers as part of an application for certification or recertification, no additional submission is required. A school is not required to notify the Department if it does not contract with any third-party servicers.

Must report contracts

Schools are also required to notify the Department if the school enters into a new contract with a third-party servicer; the school significantly modifies a contract with an existing third-party servicer; the school or one of its third-party servicers terminates a contract, or a third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy. Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within ten days of the date of the change or action.

Schools are not required to provide copies of the actual contracts with third-party servicers unless the Department specifically requests the school to submit the contracts.

When submitting information on third-party servicers to the Department, a school must display its OPEID (the institutional identifier found on the eligibility or approval letter establishing its HEA eligibility) on the upper right side of the transmittal.

The information must be provided to the Department at one of the following addresses (submissions should be marked "Third-Party Servicer Report"):

By regular mail

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By overnight mail or courier delivery

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20407

By Internet

IPOS@ed.gov

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The HEA requires a school to certify to the Department that it operates a drug abuse prevention program that is accessible to its students, employees, and officers. Two other laws added related requirements for postsecondary schools that receive SFA funds.

The Drug-Free Workplace Act of 1988 (Public Law 101-690) requires a *federal grant recipient* to certify that it provides a drug-free workplace. Because a school applies for and receives its campus-based allocation directly from the Department, the school is considered to be a grantee for purposes of the Act. Therefore, to receive campus-based funds, a school must complete the certification on ED Form 80-0013, which is part of the FISAP package (the application for campus-based funds). This certification must be signed by the school's CEO or other official with authority to sign the certification on behalf of the entire institution.

The certification lists a number of steps that the school must take to provide a drug-free workplace, including

Requirements for a drug-free workplace

- ◊ establishing a drug-free awareness program to provide information to employees,
- ◊ distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- ◊ notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

A school's Administrative Cost Allowance (ACA) may be used to help defray related expenses, such as the cost of printing informational materials given to employees. For more information on ACAs, see Section 3.

Scope of drug-free workplace

The drug-free workplace requirements apply to all offices and departments of a school that receives campus-based funds. Organizations that contract with the school are considered subgrantees; however, only grantees are subject to the requirements of the Drug-Free Workplace Act.

The Drug-Free Schools and Communities Act (P.L. 101-226) requires a school to certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification, a school usually will only submit this new certification to the Department once. (An exception would be a school that changes ownership.)

Information to be distributed to students

The drug prevention program adopted by the school must include annual distribution to all students and employees of information concerning drug and alcohol abuse as described above, except that these steps must be taken by schools that receive *any federal funding* and must include the school's *students* as well as its employees. The information that must be distributed is more specifically described in Section 8.

Developing a drug prevention program

A school must review its drug prevention program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. The development of a drug prevention program, although it is a condition for SFA funds, is usually an enterprise that is undertaken by the school administration at large, not by the financial aid office. The regulations originally published on this topic (August 16, 1990) were mailed to participating schools at the time; they offer a number of suggestions for developing a drug prevention program. Also, several organizations that can serve as resources are listed on the next page.

Measuring the effectiveness of the program

The effectiveness of a school's drug prevention program may be measured by tracking

- ◊ The number of drug- and alcohol-related disciplinary actions,
- ◊ The number of drug- and alcohol-related treatment referrals,
- ◊ The number of drug- and alcohol-related incidents recorded by campus police or other law enforcement officials,
- ◊ The number of drug- and alcohol-related incidents of vandalism,
- ◊ The number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse, and
- ◊ Student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in the SFA Programs. (See the regulations for details on Department sanctions and appeals procedures available to the school.)

Additional Sources of Information

The following resources are available for schools that are developing drug prevention programs.

✆ *The Center for Substance Abuse Treatment and Referral Hotline.*

Information and referral line that directs callers to treatment centers in the local community. (1-800-662-HELP)

✆ *The Center for Substance Abuse Prevention Helpline.*

A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line. (1-800-967-5752)

✆ *The National Clearinghouse for Alcohol and Drug Information.*

Information and referral line that distributes U.S. Department of Education publications about drug and alcohol prevention programs as well as material from other federal agencies. (1-301-468-2600)

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

Forms required for schools with campus-based allocation over $100,000

In accordance with P.L. 101-121 (and regulations published December 20, 1989), any school receiving more than $100,000 for campus-based Programs must provide the following to the Department for each award year:

- ***Certification Form*** (Combined with Debarment and Drug-Free Workplace certifications, ED-80-0013) The school will not use federal funds to pay a person for lobbying activities in connection with federal grants or cooperative agreements. This certification must be renewed each year for your school to be able to draw down campus-based funds.

- ***Disclosure Form*** (Standard Form LLL) If the school has used *nonfederal* funds to pay a noninstitutional employee for lobbying activities, the school must disclose these lobbying activities to the Department. The school must update this disclosure at least quarterly, when changes occur.

Both of these forms are sent to schools with the campus-based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the CEO or other individual who has the authority to sign on behalf of the entire institution. A school is advised to retain a copy in its files.

This certification primarily covers the use of the campus-based Administrative Cost Allowance (ACA). Schools may not use the ACA to pay for their membership in professional associations (such as NASFAA, NATTS, AICS, or NACUBO), regardless of whether the association engages in lobbying activities. Association membership is not a legitimate administrative cost of the SFA Programs.

ACA may not be used for membership fees

The school is also responsible for payments made *on its behalf*, and must include the certification in award documents for any subgrantees or contractors (such as need analysis servicers, financial aid consultants, or other third parties paid from the ACA). See Section 3 for more information on the ACA.

Section 3 Cash Management

The cash management requirements govern a school's management of most SFA Program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs.

GENERAL REQUIREMENTS

The cash management requirements are intended to

Purpose of cash management requirements

- promote sound cash management of SFA Program funds by schools,
- minimize the costs to the government of making SFA Program funds available to students and schools, and
- minimize the costs that accrue to students who receive SFA loans.

The SFA Program funds received by a school are intended solely for the use of student beneficiaries, except for funds received as an administrative cost allowance, which are intended as a payment to the school, and funds used for the Job Location and Development Program under the FWS Program. (See the Administrative Cost Allowance discussion on page 3-75.) All other funds are held in trust by the school for students, the Department, and also, in the case of FFEL Program funds, for lenders and guaranty agencies. SFA Program funds cannot be used as collateral or for any other purpose.

Third-party servicers

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion on page 3-47.

Definition of "parent"

Note that for purposes of these cash management requirements, a "parent" means a parent borrower under the PLUS Program.

REQUESTING FUNDS

Currently, the Department provides Pell Grant, Direct Loan, and campus based program funds to a school either by the "advance payment method" or the "reimbursement payment method." The November 29, 1996 final regulations introduced a third method for requesting funds from the Department: the just-in-time payment method. The Department has the sole discretion to determine the method under which SFA Program funds are provided to a school (although at this time, participation in the just-in-time payment method will be voluntary).

Advance payment method

Under the **advance payment method**, a school may submit a request for Pell Grant, Direct Loan, and campus-based program funds to the Department prior to disbursing aid to eligible students and parents. If the Department accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school. A school may not request more funds than the school needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school received those funds.

The Department does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

Reimbursement payment method

Under the **reimbursement method**, a school must disburse Pell Grant, Direct Loan, and campus-based program funds to eligible students and parents before requesting funds from the Department. Generally, the Department places a school on the reimbursement payment method if it determines that there is a need to monitor strictly the school's participation in the SFA Programs. The school cannot request more cash than the amount that it actually disbursed to those eligible students and parents. As part of the school's request the school must

- ◊ identify the students and parents for whom it is seeking reimbursement, and

- ◊ submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the SFA Program funds for which reimbursement is requested.

Before approving a school's request for funds, the Department determines that the school has

- ◊ accurately determined the SFA eligibility of each student,
- ◊ accurately determined the SFA payment to each student and parent included in its request, and
- ◊ submitted the required documentation.

There are comparable limitations on the use of FFEL funds. These limitations apply to any school on reimbursement on or after July 1, 1997. If a school is placed on reimbursement, or a school that participates only in the FFEL Program has most of the limitations of reimbursement placed on it, the school

Limitations on use of FFEL funds

- ◊ may not disburse FFEL Program funds to a borrower until the Department approves the school's request to disburse funds to that borrower (this restriction applies to any loan proceeds received by the school on or after July 1, 1997), and
- ◊ if prohibited by the Department, may not certify a loan application for a borrower until the Department approves the school's request to make the certification for that borrower (this restriction applies on the date that the Department notifies a school that it must obtain approval from the Department to certify loan applications).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for that purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be

- ◊ prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,

- ◊ required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and

- ◊ prohibited from certifying a borrower's loan application.

Because the school's submission and the Department's review of documentation to support a borrower's eligibility takes time, the school may delay returning FFEL Program funds provided by EFT or master check to a lender for a specified period of time (see Chapter 10).

Just-in-time payment method

The **just-in-time payment method**, introduced in the November 29, 1996 final regulations, will be part of the student-centered integrated delivery system under development by Project EASI. (For more information on Project EASI, see Section 2). At this time, the Department expects to use the just-in-time payment method only at schools that volunteer for participation. Moreover, a school will be able to choose the SFA Programs for which it would use the just-in-time method. For example, a school may volunteer to participate in the just-in-time payment method for the Pell Grant Program only, and continue to request and receive funds under the advance payment method for the Direct Loan and campus-based programs. More information on the implementation of the just-in-time payment method will be provided to schools by the Department in the future.

Under the just-in-time payment method, a school will submit electronically a request for funds on or near the actual date of disbursement. The request will include the date and amount of the disbursement it will make or has made to each student or parent. For each request the Department accepts for a student or parent, the funds will be provided to the school through EFT on or before the disbursement date reported by the school.

If for some reason a student is not eligible to receive the amount requested at the time the funds are actually disbursed, the school must report the adjustment in the funds for which the student is eligible within 30 days of the date that the school becomes aware of the change. A school will be permitted to make a disbursement of funds to a student or parent prior to submitting a record of that disbursement to the Department. However, if the student's eligibility for those funds has changed by the actual date of disbursement, any adjustment must be reported.

Exemption from excess cash requirements

Schools using the just-in-time payment method will be exempt from the requirements for returning excess cash (see page 3-74). Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Since the Department will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

The just-in-time payment method will enable the delivery system to provide the most current payment information to students and other system users, thereby reducing burden related to the reconciliation of payment data. This payment information will form the core of the individual student account that is the basis for the Project EASI integrated delivery system. By providing funds based on current student-level data, this payment method will strengthen the Department's ability to monitor the integrity of the SFA Programs by reducing the potential for the misuse of funds.

GAPS

In the first quarter of calendar year 1998, the Department is implementing a new centralized financial management system called the Education Central Automated Processing System (EDCAPS). Within EDCAPS is the new Grants Administration and Payments System (GAPS), a state-of-the-art delivery system that supports Title IV award and payment administration. GAPS will house the complete grant cycle and employs the latest system and financial management technologies (such as relational database and Internet technologies).

Under GAPS, schools will request funds by SFA Program using the program and fiscal year designation (award number) that the Department assigned to the authorized funds. This new method for requesting funds was introduced in final regulations published November 29, 1996. In addition, the new system will require schools to certify their expenditures only once a year versus four to 12 times a year under the current system. GAPS implementation will result in several benefits to schools, the Department, and other Education recipients and partners. These benefits include

- ◊ providing schools with on-line access via the Internet to request funds, adjust drawdowns, and report expenditures,
- ◊ simplifying expenditure reporting with schools certifying expenditures once a year versus monthly/quarterly under the current system, and
- ◊ providing schools with easy access to both grant and payment information, such as authorization amounts, current balances, and award and payment request histories.

Schools that participate in Title IV programs that require them to submit a payment request, such as Pell Grants or campus-based programs, will use GAPS to request funds. Direct Loan schools will also use this new system to request funds. Additional information on GAPS can be found on the Department's web page at http://www.ed.gov/offices/OCFO/ or a school may contact its payment account representative. In addition, a GAPS Users Guide will be sent to all schools in early December 1997.

All schools must maintain a bank account into which the Department transfers, or the school deposits, SFA Program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA Program funds in the account. A school is not required to maintain a separate account for SFA Program funds unless the Department specifies otherwise.

A school is not required to maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL Program funds in the same manner required for other SFA Program funds.

Bank account notification requirements

For each account that contains SFA Program funds, a school must identify that SFA Program funds are maintained in the account by

- ◊ including the phrase "federal funds" in the name of the account, or
- ◊ notifying the bank or investment company of the accounts that contain SFA Program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing a UCC-1 statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

Public schools exempt from UCC-1 requirement

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase "federal funds" was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they have been exempted from the requirement.

The Department may require a school to maintain SFA Program funds in a separate account that contains only SFA Program funds if the Department determines that the school failed to comply with cash management requirements, recordkeeping and reporting requirements, or other applicable program regulations.

Interest-bearing or investment account

Except in the instances discussed below, the account that Direct Loan, Pell Grant, FSEOG, and FWS program funds are deposited in must be an interest-bearing account or an investment account. An investment account must consist predominately of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the

school must maintain sufficient liquidity in that account to make required disbursements to students.

Interest must be remitted to the Department

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds $250 per year, must be remitted to the Department at least once a year. A school may keep up to $250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. A school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

Exceptions to interest-bearing account or investment account

A school is not required to maintain Direct Loan, Pell Grant, FSEOG, and FWS program funds in a interest-bearing account or an investment account for an award year if

- ◊ the school drew down less than $3 million from these funds in the prior award year and anticipates that it will not draw down more than $3 million in the current award year,
- ◊ the school can demonstrate that it would not earn over $250 in interest on the funds it will draw down during the award year, or
- ◊ the school requests these funds under the just-in-time payment method.

Schools that request funds under the just-in-time payment method are exempt because this method would ensure the expeditious accounting and disbursement of program funds. Therefore, little or no interest would be earned on funds provided to the school.

Federal Perkins Loan Program participants

A school that participates in the Perkins Loan Program must *always* maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. If the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

Accounting and financial requirements

If a school is not required to maintain separate accounts and chooses not to, it must maintain accounting and internal control systems that

- ◊ identify the balance of the funds of each SFA Program that are included in the school's bank or investment account as readily as if those funds were in a separate account, and

- ◊ identify earnings on SFA Program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements of 34 CFR 668.24 (see Section 7).

DISBURSING FUNDS

These disbursement requirements apply to all the SFA Programs specified at the beginning of this section, except for the FWS Program. A school must follow the disbursement procedures in 34 CFR 675.16 for paying a student his or her wages under the FWS Program (see Chapter 7).

SFA Program funds are **disbursed** when a school credits a student's account with the funds or pays a student or parent directly with

- ◊ SFA Program funds received from the Department,
- ◊ FFEL funds received from a lender, or
- ◊ institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds (except in the instances noted below).

Definition of "disbursed"

This definition of "disbursed" was included in final regulations published November 29, 1996. The definition is effective for SFA Program funds that are credited to a student's account or paid directly to a student or parent on or after July 1, 1997.

Knowing when an SFA disbursement occurs

It is important to distinguish when SFA Program funds have been disbursed for a number of reasons. To begin with, once SFA Program funds have been disbursed, a student becomes an SFA recipient and the rights and responsibilities of an SFA recipient are in effect. For example, as an SFA recipient, a student has the right to the protection of the refund and repayment requirements and the responsibility to meet the satisfactory academic progress requirements. If the student is an SFA loan recipient, he or she assumes responsibility for the loan (and all interest accruing on the loan if it is unsubsidized), and has the right to cancel the loan. In addition, knowing when an SFA disbursement occurs will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues.

This definition of "disbursed" makes clear that any funds labeled as SFA Program funds *are* SFA Program funds.

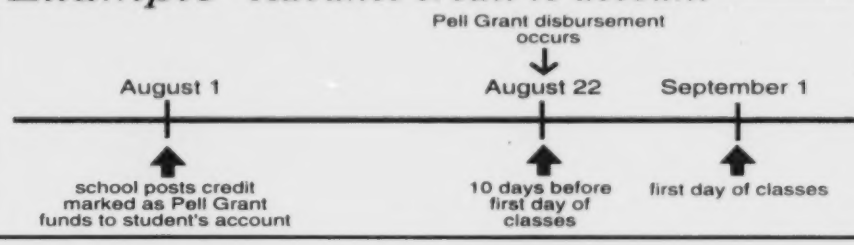
However, because of other SFA Program requirements, there are two instances when crediting institutional funds labeled as SFA Program funds to a student's account in advance of receiving the actual SFA Program funds will not result immediately in an SFA disbursement:

Exceptions

- ◊ If a school credits a student's account with the institutional funds in advance of receiving SFA Program funds earlier than 10 days before the first day of classes of a payment period, the SFA disbursement occurs on the tenth day before the first day of classes. See the example below. (This provision corresponds to the early disbursement requirements. See page 3-66.)

- ◊ For a student whose loan funds are subject to the 30-day disbursement delay, if a school credits the student's account with institutional funds in advance of receiving SFA Program funds earlier than 30 days after the first day of the payment period, the SFA loan disbursement occurs on the 30th day after the beginning of the payment period.

Example –Advance credit to account


Pell Grant disbursement occurs
August 1
August 22
September 1
school posts credit marked as Pell Grant funds to student's account
10 days before first day of classes
first day of classes

In addition, if a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an SFA credit (for example, an "estimated Federal Pell Grant") the disbursement does not occur until the posting is subsequently converted to an actual credit. If the posting is never converted to an actual credit, it never becomes an SFA Program disbursement.

Disbursement by crediting a student's account

When a school disburses SFA Program funds to a student by **crediting a student's account,** it may only do so for **allowable charges**. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized by the student. (An exception for the payment of prior year charges is discussed on page 3-69.)

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Allowable charges are

Allowable charges

- ◊ current charges for tuition and fees (as defined in section 472 of the Higher Education Act of 1965, as amended [HEA]), room and board (if the student contracts with the school), and
- ◊ other current charges that a student incurs for educationally related activities, if the school obtains the student's or parent's authorization to have such charges credited with SFA Program funds.

If a charge does not meet the definition of tuition and fees in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with SFA Program funds for the charges.

[redacted] ***Current charges***: Charges assessed the student by the school for the current award year or the loan period for which the school certified or originated a FFEL or Direct Loan.

Disbursing SFA funds directly

In addition to crediting a student's account, SFA Program funds may be disbursed directly to a student or parent. A school may disburse funds "directly" by one of four methods:

- ◊ releasing a check provided to the school by a FFEL Program lender to the student or parent;
- ◊ issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent. (A check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup.);
- ◊ initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and
- ◊ paying the student in cash, provided that the school obtains a signed receipt from the student or parent.

A parent borrower of PLUS Loan funds may authorize the school to transfer PLUS Loan funds to a bank account in the student's name.

Note that the law requires a school that disburses Direct Loans to student accounts to first use Direct Loan funds to pay for outstanding allowable charges. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. The law simply requires that if

there is any outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those outstanding charges before any Direct Loan funds may be disbursed directly to the borrower.

DISBURSEMENT BY PAYMENT PERIOD

Schools must disburse all SFA Program funds (except FWS) on a payment period basis (for more information on the definition of a payment period, see Section 1). However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular SFA Program, please see the applicable Handbook chapter.

Unless a student is eligible to receive a late disbursement of SFA Program funds, a school may disburse SFA Program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

Excused absences

An excused absence (an absence that does not have to be made up) may be counted as a completed clock hour under certain circumstances. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if

- ◊ the school has a written policy that permits excused absences, and
- ◊ for SFA purposes, the number of excused absences under the policy does not exceed the lesser of
  - the policy on excused absences of the school's designated accrediting agency,
  - the policy on excused absences of any state agency that legally authorizes the school to operate, or
  - 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, missed, and not to be made up.

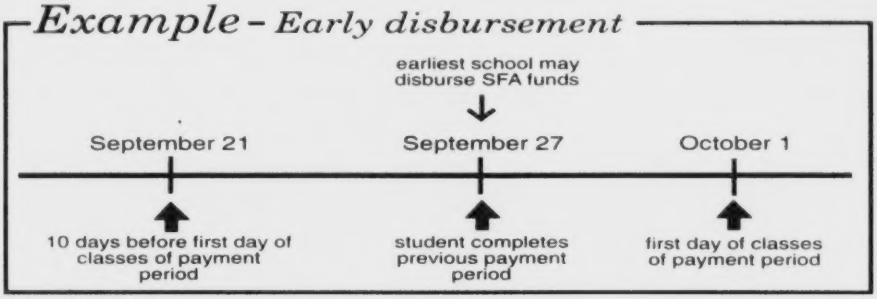
Early disbursements

The earliest a school may disburse SFA Program funds is

- for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period.

- for a student enrolled in a clock hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, *the later of* 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received SFA Program funds (see the example below). This provision generally applies only to the first disbursement of an FFEL or Direct Loan. (This requirement is applicable to any payment period beginning on or after July 1, 1997.)

Example - Early disbursement


earliest school may disburse SFA funds
September 21
September 27
October 1
10 days before first day of classes of payment period
student completes previous payment period
first day of classes of payment period

Note that if a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student's first day of classes.

Late disbursements

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of SFA Program funds may be made to an ineligible student if the student became ineligible only because

- for purposes of the Direct Loan and FFEL programs, the student is no longer enrolled at the school as at least a half-time student for the loan period, and

- for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

In addition, other conditions must be met depending on the SFA Program from which the late disbursement is to be made. The following chart lists these conditions:

Late Disbursements

Program	A late disbursement may be made if, before the date the student becomes ineligible...		
Direct Loans*	SAR or ISIR with official EFC is received (all programs)	electronic origination record is created	For a first-year, first-time borrower, student completed first 30 days of program
FFEL Loans*		loan application is certified	
Pell		Valid SAR or ISIR is received	
SEOG		Student is awarded grant	
Perkins		Student is awarded loan	

*A school may not make a late second or subsequent disbursement of a Direct Subsidized or Direct Unsubsidized loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

Institutional late disbursement policy

A school may make the late disbursement only if the funds are used to pay for unpaid educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible. A school is not required to obtain detailed expenditure documentation from the student. Instead, the school may develop a policy that it applies in all cases. For example, a school may adopt a policy that all expenses for books and supplies are considered to have been incurred by a student who withdraws after the first two weeks of the term (provided that this policy does not conflict with any applicable refund requirements).

Deadline for payment

The school must make the late disbursement to the student no later than 90 days after the date that the student becomes ineligible. For a FFEL, this means that the funds would have to be disbursed to the school by the lender to provide sufficient time for the school to disburse the funds to the student within 90 days.

This definition of a "late disbursement" was included in final regulations published November 29, 1996. The definition is applicable to any student that becomes ineligible on or after July 1, 1997.

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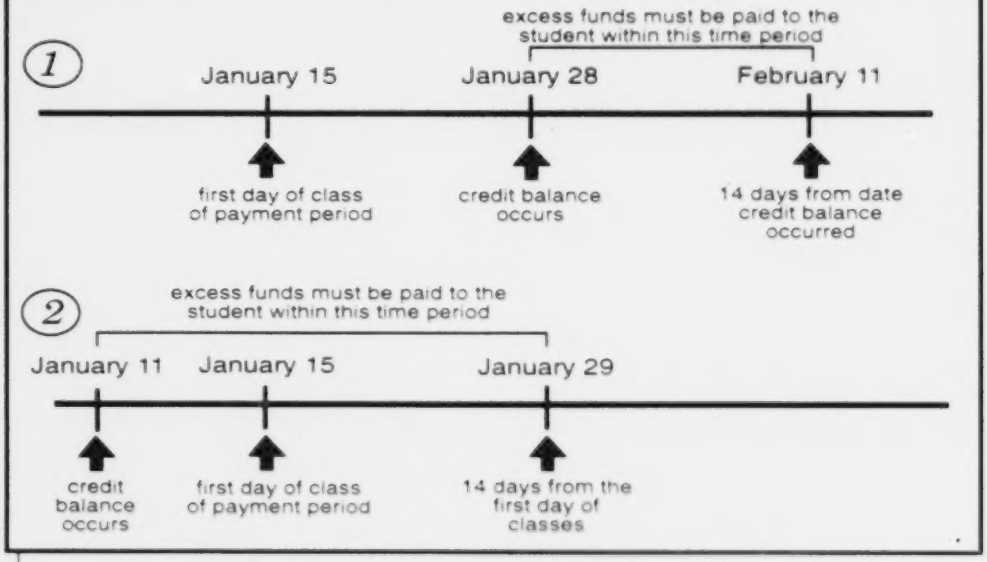
SFA credit balance

Whenever a school credits SFA Program funds to a student's account, and those funds exceed the student's allowable charges, an SFA **credit balance** occurs. A school must pay the excess SFA Program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of

- the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period (see Example 1 below), or
- the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (see Example 2 below).

Example – Payment of a credit balance


1
excess funds must be paid to the student within this time period
January 15
January 28
February 11
first day of class of payment period
credit balance occurs
14 days from date credit balance occurred
2
excess funds must be paid to the student within this time period
January 11
January 15
January 29
credit balance occurs
first day of class of payment period
14 days from the first day of classes

Note that the law requires that any excess PLUS Loan funds be returned to the *parent*. Therefore, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. At this time, the Department does not specify how a school must determine which SFA Program funds create a credit balance. For information on the treatment of a credit balance when a student withdraws, see Section 4.

Holding excess funds

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the student or parent and the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because SFA Program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- any remaining balance on loan funds by the end of the loan period, and
- any other remaining SFA Program funds by the end of the last payment period in the award year for which they were awarded.

This provision for payment of SFA Program fund balances was effective on July 1, 1997.

The school is permitted to retain any interest earned on the student's credit balance funds. The Department may prohibit a school that has been placed on reimbursement from holding excess funds. If the Department determines that the school has failed to meet the financial responsibility standards, a limitation may be places on the school preventing it from holding excess funds for any student.

Payment of prior year charges

In general, SFA Program funds are allowed to be used to pay only for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's SFA Program funds to pay minor prior-year institutional charges if the student has or will have an SFA credit balance, and the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use SFA Program funds to cover prior-year charges that are less than $100. To pay prior-year charges for amounts equal to or greater than $100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses.

REQUIRED SCHOOL NOTIFICATIONS

Before a school disburses SFA Program funds for any award year, the school must notify a student of the amount of SFA Program funds the student *and his or her parent* can expect to receive from each SFA Program, and how and when those funds will be disbursed. If those funds include Direct Loan or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans (this requirement was included in final regulations published November 29, 1996 and applies to loan periods beginning on or after July 1, 1997).

A school must provide the best information it has regarding the amount of SFA Program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), a school may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Opportunity for loan cancellation

Because incurring a loan obligation is a serious responsibility, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation and to give students the opportunity to replace credited loan proceeds with other funds. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds. The notification must include

- ◊ the date and amount of the disbursement;
- ◊ the right of the student or parent borrower to cancel all or a portion of the loan. (This is applicable to FFEL Program funds only if the school received the loan funds from a lender through EFT payment or master check.); and
- ◊ the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan.

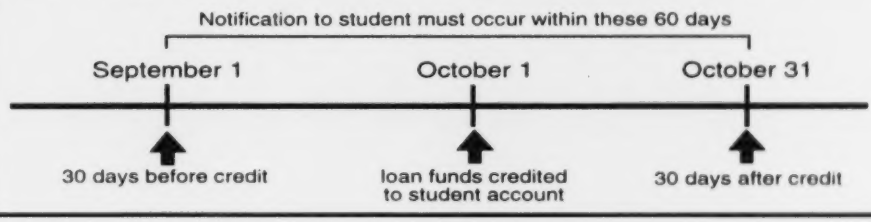
This notification requirement was included in final regulations published November 29, 1996. The definition applies to loan funds that are credited to a student's account on or after July 1, 1997.

A school is not required to provide notification of cancellation rights if the school disburses a FFEL directly to the student or parent by check. This is because a student or parent who receives a FFEL disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning the check.

60 day window for notification

This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account (see example below). If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice and the school must maintain a copy of that confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a "return receipt" message and keep a copy of the receipt on file.

Example—Notification when credit account


Notification to student must occur within these 60 days
September 1
October 1
October 31
30 days before credit
loan funds credited to student account
30 days after credit

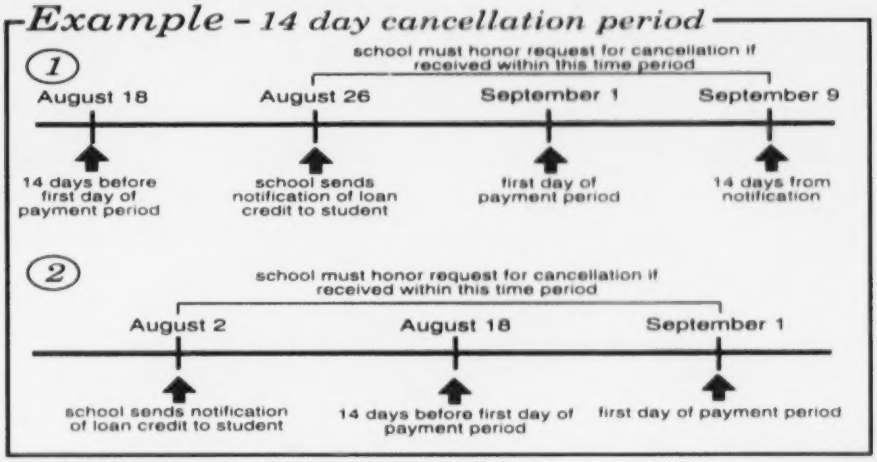
A school *may not* use an in-person or telephonic conversation as the sole means of notification. In-person and telephonic conversations are not adequate and verifiable methods of providing notice. However, notification to borrowers in-person and by telephone may be done in addition to providing written or electronic notice.

14 day cancellation window

Once the school has provided notification, if the student or parent wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor the request if the request is received no later than

- ◊ 14 days after the date the school sends the notice (see example 1 on the next page), or
- ◊ the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period (see example 2 on the next page).

Example - 14 day cancellation period


1
school must honor request for cancellation if received within this time period
August 18
August 26
September 1
September 9
14 days before first day of payment period
school sends notification of loan credit to student
first day of payment period
14 days from notification
2
school must honor request for cancellation if received within this time period
August 2
August 18
September 1
school sends notification of loan credit to student
14 days before first day of payment period
first day of payment period

Response to request is required

If a student's or parent's request for cancellation is received within the specified time period, the school must return the loan proceeds and/or cancel the loan as appropriate. If a student's or parent's request for cancellation is received *after* the specified time period, the school may, but is not required to, honor the request. Regardless of when the request is received, the school must inform the student or parent, in writing or electronically, of the outcome of the request.

A school is not responsible for returning a portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, a school is encouraged to take an active role in advising the borrower to return the portion of funds already received.

REQUIRED STUDENT AUTHORIZATIONS

A school must obtain authorization from a student (or parent borrower) before

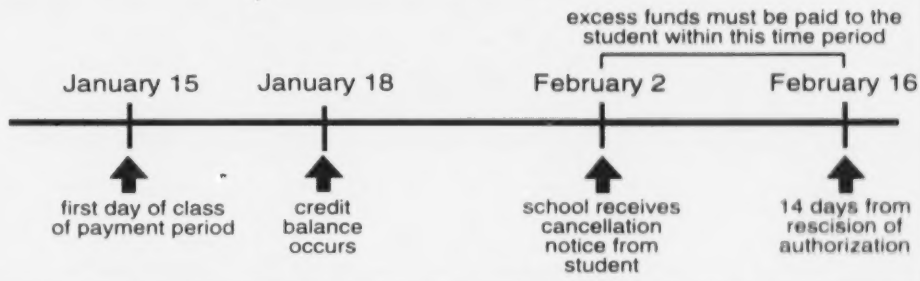
- ◊ disbursing SFA Program funds by EFT to a bank account designated by the student or parent
- ◊ using SFA Program funds to pay for allowable charges other than tuition, fees and room and board (if the student contracts with the school)
- ◊ holding excess SFA Program funds (credit balances)
- ◊ applying SFA Program funds to prior-year charges.

In obtaining an authorization from a student or parent, a school *may not require or coerce the authorization* and must notify the student or parent that he or she may cancel or modify the authorization at any time. Once a student or parent cancels or modifies his or her authorization, the school may not perform the function, or must perform the function as modified, from that date forward.

Effective date of cancellation

A cancellation or modification is not retroactive. If a student or parent cancels an authorization to use SFA Program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or prior-year charges, the school may use SFA Program funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice (see example below).

Example*– *Payment after cancel authorization


excess funds must be paid to the student within this time period
January 15
January 18
February 2
February 16
first day of class of payment period
credit balance occurs
school receives cancellation notice from student
14 days from rescision of authorization

A school may include two or more of the items that require authorization on one statement. However, a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

Any authorization must clearly explain how the school will carry out an activity. It does not need to detail every aspect pertaining to the activity; however, a blanket authorization that only identifies the activities to be performed is not acceptable. For example, an authorization permitting a school to use excess SFA Program funds must provide detail that is sufficient to give the student (or parent) a general idea of what the excess funds would be used to pay. A blanket statement that excess funds would cover *any* charges is not acceptable.

Unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period during which the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any

time. This one-time authorization provision was included in final regulations published November 29, 1996. The definition applies to any authorization obtained by a school to carry out these activities beginning on or after July 1, 1997.

EXCESS CASH

"Excess cash" is any amount of SFA Program funds, other than funds received under the just-in-time payment method (see page 3-58), that a school does not disburse to students by the end of the third business day following the date the school receives those funds. Excess cash must be returned to the Department immediately. However, under certain circumstances, a school may maintain an excess cash balance for up to seven additional days.

Allowable excess cash tolerances

For a period of peak enrollment (see below) at the school during which a drawdown of excess cash occurs, the school can maintain the excess cash balance in its federal account if the excess cash balance is less than **3%** of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}}$$

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than **1%** of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that balance.

If a school that is participating in the Direct Loan Program does not have prior-year drawdown data for the Direct Loan Program because it did not participate in the Direct Loan Program for that prior award year, the school may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year in determining total prior-year drawdowns.

The Department reviews schools to determine where excess cash balances have been improperly maintained and to seek recovery from those schools of the resulting losses to the government.

Consequences for improperly maintaining excess cash balances

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. In addition, where excess cash balances are disproportionately large to the size of the school or represent a continuing problem with the school's responsibility to administer efficiently the SFA Programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA Programs. (For more on fines and other actions against schools, see Section 9.)

Generally, a check is "issued" when the school releases, distributes, or makes available the check by mailing the check to the student or parent (if applicable), or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.

ADMINISTRATIVE COST ALLOWANCE

Pell Grant allowance

The Department pays an administrative cost allowance (ACA) to schools to offset some of the administrative costs related to the Pell Grant and campus-based programs. As defined in the regulations, the Pell Grant Program ACA is $5 for each Pell Grant recipient at the school (calculated by the Department, based on the number of Pell Grant recipients reported by the school). Schools are notified of their Pell Grant ACA by mail three times during the processing year. The Pell Grant allowance is paid directly to the school from the Federal Reserve. (For more information, see Chapter 4.)

Campus-based allowance

A school calculates its own campus-based program ACA in its annual Fiscal Operations Report and Application to Participate (FISAP), based on a percentage of its campus-based expenditures in the previous award year (see Chapter 5). Unlike the Pell Grant ACA procedures, the school must

draw down the campus-based ACA from its program allocation using the ED Payment System. (A school may use up to 10% of the FWS-based ACA for expenses incurred for its community service program.)

Section 4 Refunds and Repayments

This section explains the refund and repayment requirements in effect since the 1995-96 award year and provides refund and repayment examples. The requirements discussed here are found in 34 CFR 668.22. **These refund and repayment rules apply to all participating SFA schools.**

When requirements apply

The SFA refund and repayment requirements apply when a student receives SFA funds and withdraws, drops out, takes an unapproved leave of absence, fails to return from an approved leave of absence, is expelled, or otherwise fails to complete the period of enrollment for which he or she was charged.

The SFA refund and repayment requirements *do not apply* to a student who

- ◊ withdraws, drops out, or is expelled before his or her first day of class,[1]

Partial withdrawals not affected

- ◊ withdraws from some classes, but continues to be enrolled in other classes, or

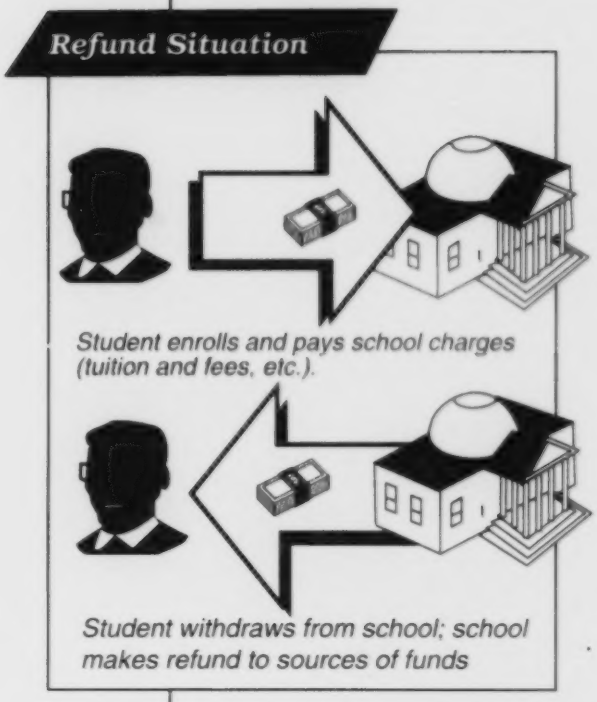
Students who don't receive SFA not affected

- ◊ does not receive SFA funds for the period in question. (Students whose parents received a PLUS Loan are considered to have received SFA funds and so are covered by the SFA refund and repayment requirements.)

A student has "received" SFA Program funds if a disbursement of SFA Program funds has been made. An SFA disbursement occurs even when a school credits a student's account with institutional funds labeled as SFA Program funds (for more information on SFA disbursements, see Section 3). If a student ceases attendance after the account is credited but before the SFA funds are actually drawn down, the student is an SFA recipient, and the SFA refund requirements apply. The school must draw down the SFA funds, perform any required refund calculations, and return any

[1]See 34 CFR 668.21, 685.303, and 682.604.

refund to the proper source. If, however, the entire refund will be returned to the same program from which the draw down will occur, the school may draw down the net amount of funds. For example, institutional funds in the amount of $1000 are credited to a student's account and labeled as Pell Grant funds, creating a Pell Grant disbursement. Before the school draws down the Pell Grant funds, the student withdraws. The Pell Grant is the student's only source of SFA funds. The refund due to the Pell Grant Program is $500. The school may modify its draw down request to $500 in Pell Grant funds.


Refund Situation
Student enrolls and pays school charges (tuition and fees, etc.).
Student withdraws from school; school makes refund to sources of funds

Some schools may refer to a return of funds to the SFA Programs for students who do not attend at least one class or who withdraw from some (but not all) classes as a "refund" or "repayment." Also, many schools refer to a "refund" as the direct disbursement to a student (after the school has credited the student's account for institutional charges). But the terms "refunds" and "repayments," as discussed in this section, have specific meanings.

A "refund" is the *unearned* amount of institutional charges that must be returned to the SFA Programs, other sources of aid, and the student, for a student who received SFA funds and who has ceased attending school after attending at least one class.

A refund is defined as the difference between the amount paid towards institutional charges (including financial aid and/or cash paid) and the amount the school may retain under the appropriate refund policy.

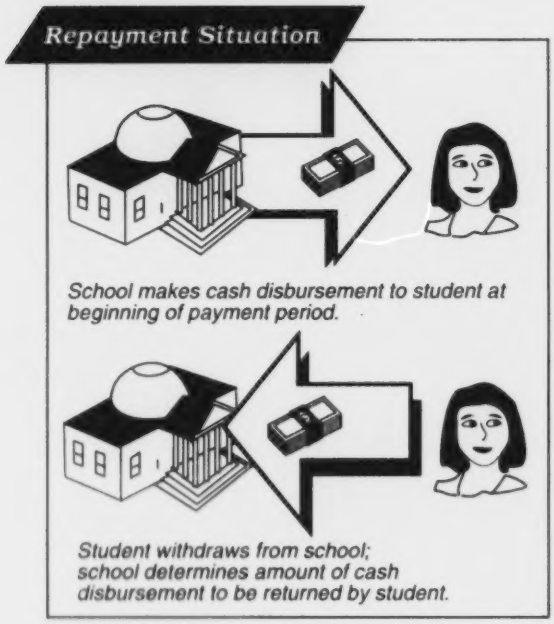
Total Amount Paid
−Amount Retained
= REFUND AMOUNT
(amount unearned)

$668.22

Aid Disbursed as Cash
−Living Expenses Incurred
= REPAYMENT AMOUNT

$668.22

A "repayment" is the *unearned* amount of a direct disbursement to a student that the student (who received SFA funds and who has ceased attendance after attending at least one class) must pay back. (Usually, the school will use incoming aid to pay institutional charges and will disburse any remaining aid directly to the student.) If the school determines that the student received


Repayment Situation
School makes cash disbursement to student at beginning of payment period.
Student withdraws from school; school determines amount of cash disbursement to be returned by student.

a direct disbursement in excess of the living expenses he or she could have reasonably incurred while still enrolled, then a portion of the disbursement was not *earned* and must be repaid by the student to the SFA Programs.

FWS never included; FFEL & Direct Loan excluded from repayments

Two other important points: because wages under work-study programs are earned by the student and cannot be recovered, work-study funds are *never* considered in the refund and repayment process. (However, a recipient of Federal Work-Study funds is an SFA recipient so the SFA refund requirements apply.) Also, FFEL and Direct Loan funds are excluded in the **repayment** process because the student is already required to repay them to the lender. This is one reason that the school must have a way of knowing which program funds were used to credit the student's account and which were paid to the student for living costs.

REQUIRED POLICIES AND PROCEDURES

Written policies required; students must be informed

A school is required to provide a written statement explaining its refund policies and procedures to prospective students prior to enrollment or prior to execution of an enrollment agreement (or other document that legally binds a student to pay the school), whichever is earlier. This information must also be provided in writing to currently enrolled students, and must include details on how refunds will be calculated and distributed, including an explanation of the various factors that will impact a student's refund (whether the student is a first-time student, what the state policy is, the concept of unpaid charges, etc.). If the school changes its refund policies or procedures at any time, it must provide this information to all current and prospective students. This information may be provided through a school catalog or included in a schedule of fees if these publications are distributed to all current students and prospective students at no charge. A school is not *providing* the information to all students if it is only including the information in a school newspaper or a flyer that is available on campus.

Examples & required procedures

The school must make examples of common refund situations available, although it is not necessary to provide an example of every possible refund situation. The written statement must inform the student that these examples are available. Additionally, the school must provide a detailed explanation of the procedures a student must follow to receive a refund. Note, however, that an SFA school is required to comply with all SFA refund rules and regulations, regardless of whether students follow the school's required refund procedures or not.

Schools must publish costs

Schools must also publish the student's costs for required supplies and equipment (including books). In addition, schools must substantiate to the Department, upon request, that those costs are reasonably related to the school's cost for those supplies.

FAIR AND EQUITABLE REFUND REQUIREMENT

Every participating SFA school must have a fair and equitable refund policy.

Three possible refund policies

The Higher Education Amendments of 1992 define a "fair and equitable refund policy" as one that provides for a refund of at least the largest amount under

- ◊ applicable state law;
- ◊ specific refund requirements established by the school's nationally recognized accrediting agency, as approved by the Department; or
- ◊ the pro rata refund calculation defined in the Higher Education Amendments of 1992 *if* the student is attending the school for the first time, and withdrew on or before the 60% point of the period of enrollment for which the student has been charged. (Pro rata refunds are discussed later in this section.)

If none of the three options above applies to a particular student, the school must then calculate a refund according to the Federal Refund Policy found in the regulations. The school must compare the Federal Refund Policy refund with the refund amount under its own institutional refund policy (if any), and issue the larger of the two refunds. **For each SFA student who does not complete the enrollment period for which they were charged, the school must calculate all applicable refunds to see which is the largest.**

First-time student

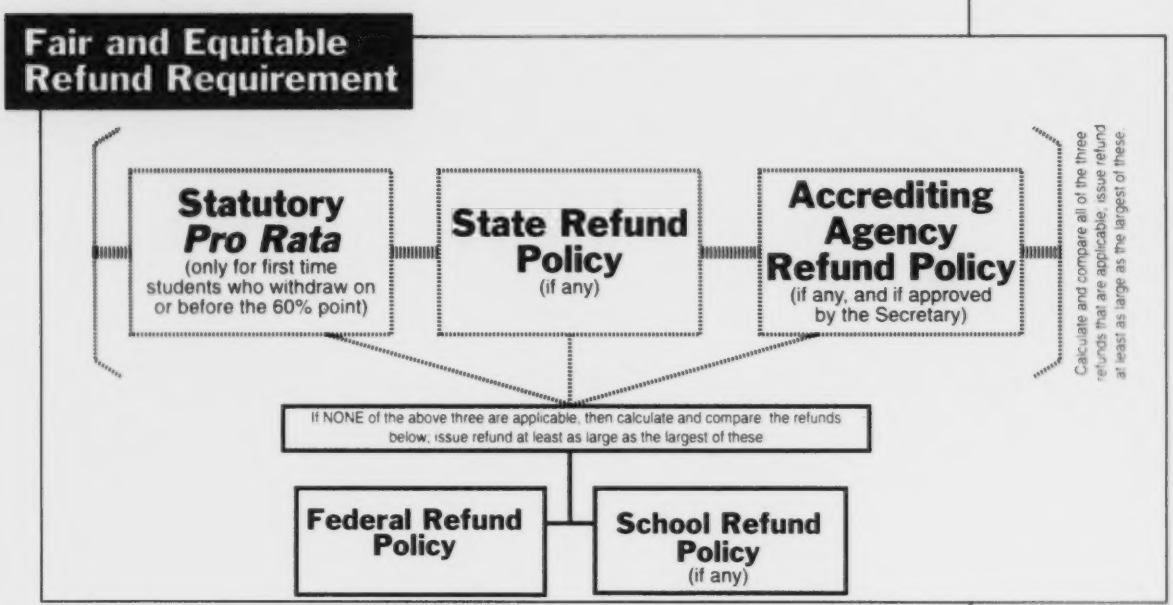
For those SFA students who are **first-time students** and who withdraw on or before the 60% point in time of the enrollment period for which they were charged, the school must calculate a statutory pro rata refund and

compare this amount to the refund amount from the applicable state and accrediting agency policies (if any) to determine the largest available refund to the student. (For more details on pro rata requirements, see page 3-92.) If both the state and the accrediting agency policies do not exist or are not applicable, the student's refund is the pro rata refund amount.

Continuing student

If a student is a **continuing student** (not a first time student) who withdrew, or a first time student who withdrew after the 60% point of the enrollment period for which he or she is charged, the school must calculate the student's refund amounts using the applicable state and accrediting agency policies (if any), compare the resulting refunds, and use the calculation that provides the largest refund. If the state and accrediting agency policies do not exist or are not applicable, the school must calculate the refund under the Federal Refund Policy and the school's policy (if any) and provide the largest refund.

The flowchart below illustrates the various required refund calculations and comparisons that may be required.



The Department must specifically approve an accrediting agency's refund policy before it may be used in the refund comparison. **As this publication goes to print, no accrediting agency refund policies have been approved by the Department.**

A state refund policy refers not only to laws enacted by the state's legislature, but also to refund regulations of a state agency, if the regulations were established through a legally enforceable regulatory process and carry the force and effect of law. If a school is using a policy as a state refund policy, the school must be able to refer to a state law or state regulation that establishes those refund requirements.

BEST COPY AVAILABLE

COMPARING TO DETERMINE THE LARGEST REFUND

Let's look at a sample refund situation. St. Mark's Academy (SMA) charges by the 10-week semester. Bob is a first-time student at SMA and received federal SFA funds. He withdraws in the third week (3 ÷ 10 = 30%), so the statutory pro rata refund requirements apply. SMA must calculate the student's refund according to its state guidelines (if any), its accrediting agency guidelines (if approved by the Department), and the statutory pro rata requirements.

***Voluntary* pro rata**

State guidelines. SMA's state guidelines allow it to retain institutional charges proportional to the portion of the enrollment period completed by the student. Because Bob attended 30% of the semester, SMA may keep 30% of the institutional charges. (This modified pro rata refund is voluntary, not statutory [i.e., it is not required by federal law]—so it is nonpro rata and must be calculated according to the unpaid charges requirements. The refund regulations require that unpaid charges must be subtracted from the amount retained by SMA, but this issue is currently in litigation. For details on this topic, see page 3-88.)

Accrediting agency guidelines. SMA's accrediting agency refund policy is not approved by the Department. Therefore, calculation and comparison of the accrediting agency refund is not applicable.

Statutory pro rata requirements. The statutory pro rata rules require SMA to refund institutional charges proportional to the portion of the enrollment period for which the student has been charged that remains, rounded down to the nearest 10%. (Notice that the state policy dictated how much SMA is allowed to *retain*, but statutory pro rata requirements are written in terms of how much the school must *return*.) The portion of the enrollment period for which the student has been charged that remains is calculated according to statutory formula (discussed on page 3-94). Using that formula, SMA calculates that 70% of the enrollment period for which Bob has been charged remains. Accordingly, SMA must refund 70% of institutional charges under the statutory pro rata refund calculation and retains 30%.

Compare* AFTER *calculating the refund

Calculating and comparing the refunds. In determining which calculation provides the largest refund, it is not enough to simply compare the refund percentages dictated by each policy. The school must completely calculate each refund separately, and then compare the resulting amounts. Even though the state and pro rata refund policies provide for the same percentage refund, the school must perform both calculations and compare, because requirements specific to each policy may affect an individual's refund amount. Also, it is not safe to automatically assume that the statutory pro rata calculation provides the largest refund—that is not always the case.

In addition to the amounts the school is allowed to retain under each policy, SMA needs the following figures to calculate both refunds: (1) total institutional charges, (2) total amount paid to those charges, and (3) Bob's total unpaid charges.

(1) Bob's institutional charges for the semester total **$1,500**.

(2) Bob received an $850 Federal Pell Grant disbursement and a $300 FSEOG payment; both are credited to cover institutional charges. Bob also made a $200 cash payment. A total of **$1,350** was paid toward institutional charges ($850 + $300 + $200 = $1,350).

(3) Unpaid charges are calculated by subtracting the total amount paid to institutional charges from the total institutional charges. Bob's unpaid charges equal **$150** ($1,500 - $1,350 = $150). (For a details on unpaid charges and the impact on a refund calculation, see page 3-88.)

The state refund calculation. The state refund policy allows SMA to keep 30% of its institutional charges ($1,500 x .30 = **$450**). The unpaid charges ($150) must be subtracted from the amount SMA could otherwise retain ($450). Thus, SMA is actually entitled to retain only **$300** ($450 - $150 = $300). SMA then subtracts the amount retained ($300) from the amount paid to institutional charges ($1,350) to figure the refund ($1350 - $300 = $1,050). The refund under the state policy is **$1050**.

The statutory pro rata refund calculation. The statutory pro rata policy dictates that SMA's refund be proportional to the portion of the enrollment period for which the student has been charged that remains, rounded downward to the nearest 10%. As explained previously, 70% of the enrollment period for which Bob has been charged remains, so SMA must refund 70% of the institutional charges ($1,500 x .70 = **$1,050**). The regulatory requirements regarding unpaid charges do not apply to a statutory pro rata calculation; rather, the statutory pro rata allows SMA to subtract Bob's unpaid charges ($150) from his initial refund amount ($1,050). Thus, the statutory pro rata refund would actually be **$900** ($1,050 - $150 = $900).

After calculating all the applicable refunds, the school must use the calculation that provides the largest refund—in this case, it is the state calculation resulting in a refund of **$1,050**. Of that amount, $850 must be returned to the Pell Grant Program, and the remaining $200 goes to the FSEOG account in accordance with the law and regulations. (For more on the required distribution of refunds and repayments, see page 3-98.)

Because SMA earned $450 but received only $300, SMA may bill the student for the $150 of unpaid charges.

Total amount paid

```
  850
+ 300
+ 200
= 1350
```

Unpaid charges

```
 1500
- 1350
 = 150
```

State refund

```
 1500
x .30
 = 450
 - 150
 = 300

 1350
 - 300
 = 1050
```

Pro rata

```
 1500
x .70
 = 1050
 - 150
 = 900
```

WITHDRAWAL DATE

A key component needed in order to determine if a refund of institutional charges is required is the date the student stopped attending classes and, therefore, was no longer receiving the instruction for which he or she was charged. This date is generally referred to as the withdrawal date. The withdrawal date is also critical in determining the amount of a student's refund. The General Provisions regulations define the withdrawal date as the earlier of

- ◊ the date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later, or

- ◊ if the student drops out of the institution without notifying the institution (does not withdraw officially), the last recorded date of class attendance by the student, as documented by the institution.

In all cases, whether or not the student notifies the school that he or she is withdrawing or has withdrawn, this definition is used to determine a student's withdrawal date by determining the student's last date of class attendance. In some cases, a school may use the last date of attendance as specified by the student; in others, the last date of attendance must be documented by the school. For example:

Scenario 1: For a student who never notifies the school that he or she has stopped attending classes, the withdrawal date is the student's last recorded date of attendance, as documented by the school.

Scenario 2: In those instances when the student informs the school that he or she will stop attending classes at a later date, the last date of attendance may be determined by using the date supplied by the student. If, however, the school has conflicting information and can document that the student attended beyond the date he or she specified, the last date of attendance is the date which the school documented was the student's last day of attendance.

Scenario 3: When a student stops attending classes and *subsequently* notifies the school that he or she withdrew, the withdrawal date is the last recorded date of class attendance by the student as documented by the school, *except* that the Department allows a school to use the last date of class attendance as specified by the student. The regulations address such cases by the use of the word "earlier" which acknowledges that two situations could exist for the same student during the same enrollment period. That is, a student who stopped attending classes without notifying

the school may, at a later date, notify the school that he or she has withdrawn. The rule requires the school to establish the withdrawal date under both conditions and use the earlier date.

Timely payment of refunds and repayments

To aid schools in the determination of the time frames for the return of funds, the withdrawals described above are characterized here as official withdrawals or unofficial withdrawals (see "Time Frames For Return Of Funds" later in this section). For this purpose, a student is considered to have officially withdrawn if he or she notifies the school of his or her withdrawal during the period of enrollment for which the student has been charged. Therefore, Scenario 1 described above is an unofficial withdrawal, and Scenarios 2 and 3 are official withdrawals. A school is required to determine the withdrawal date for an unofficial withdrawal within 30 days of the end of the period of enrollment for which the student has been charged, the academic year, or the program, whichever is earliest.

For a student who is expelled from school or a student who fails to return from an approved leave of absence,[2] the withdrawal date is the last date of attendance, as documented by the school. If a student takes an unapproved leave of absence, the withdrawal date is the last date of attendance prior to the leave of absence, as documented by the school.

If a school uses the last date of attendance as provided by the student, and the school has reason to believe that the information provided by the student is inaccurate, it must resolve any conflicting information between the student's statement and its records.

Schools must document student attendance

Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specified point in time. The school's determination of the student's last day of attendance must be based on an event that the school routinely monitors and must be confirmed by an employee of the school. If these conditions are met, the following are acceptable forms of such documentation: exams, records of attendance, tutorials, computer-assisted instruction, counseling, academic advisement, or study groups.

Correspondence

For a correspondence program, the withdrawal date is normally the date of the last lesson submitted, if the student failed to submit the subsequent lesson on schedule.[3]

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[2]See the discussion on leave of absence on page 3-86.

[3]If within 60 days of the last lesson submission, the student states in writing that he or she wishes to continue in the program and understands that subsequent lessons must be submitted on time, the school may restore the student to in-school status. Only one such restoration can be granted to a particular student.

APPROVED LEAVE OF ABSENCE

A student who takes an approved leave of absence is considered not to have withdrawn from the school. A leave of absence is approved if

- the student has made a written request for the leave of absence,
- the leave of absence does not exceed 60 days,
- the school has granted only one leave of absence to the student in any 12-month period, and
- the school does not charge the student for the leave of absence.

If a student's leave of absence is *not* approved or the student fails to return to the school at the end of an approved leave of absence, the student is considered to have withdrawn from the school, and the refund requirements apply.

These leave of absence requirements also affect a student's in-school status for the purposes of deferring SFA loans. A student on an approved leave of absence is considered to be enrolled at the school and would be eligible for an in-school deferment for his or her SFA loans. A student who takes an *unapproved* leave of absence or fails to return to the school at the end of an approved leave of absence is no longer enrolled at the school and is **not** eligible for an in-school deferment of his or her loans.

PERIOD OF ENROLLMENT FOR WHICH THE STUDENT HAS BEEN CHARGED

The refund and repayment amounts are also determined in part by the period of enrollment used in the calculation. The regulations require that a school use the actual period for which the student was charged, with the following minimums:

- **For all term programs,** use the semester, trimester, quarter, or other academic term.
- **For all nonterm programs,** for programs that are longer than or equal to the academic year, use the payment period or one-half of the academic year, whichever is greater; for programs that are shorter than the academic year, use the program length.

How the student is billed, such as on an installment or monthly payment plan, does not automatically determine how much the student was "charged." The "period of enrollment for which the student was charged" is the period for which the student is contractually liable by having signed an enrollment agreement or similarly binding document.

If a school charges by different periods for different costs, all charged amounts should be converted to represent the *longest* period.

DETERMINING INSTITUTIONAL AND NONINSTITUTIONAL CHARGES

To calculate either a refund or a repayment, the school must first determine the student's costs and separate them into two different types: institutional charges (such as tuition) used to calculate any refund due; and noninstitutional charges (such as off-campus rent, living expenses, or transportation costs) used to calculate any repayment due.

Allowable charges & institutional charges

In general, an **institutional charge** is a charge for educational purposes by a school for which the school requires direct payment. There is some confusion over the relationship between "allowable charges" and institutional charges. Allowable charges are not always institutional charges (see Section 3 for a discussion of allowable charges) and a charge is not automatically an institutional charge just because a school has credited a student's account with SFA funds to cover the charge. For example, a student may give a school permission to credit her account for the cost of concert tickets. This would make the cost of the concert tickets an allowable charge. However, because the ticket charge is not a charge for educational purposes that is required to be paid to the school, if the student withdraws, the cost of the concert tickets would not have to be an institutional charge. The cost of the tickets could be a noninstitutional charge and would then be included in any repayment calculation for the student.

Tuition charges are always institutional charges, but everything else (fees, room and board charges, books and supply costs, etc.) is subject to Departmental guidance and state or accrediting agency refund rules. Usually, if the student purchases books or supplies from the school, it's an institutional cost. However, the Department has determined that if the student has a *real and reasonable* opportunity to obtain the items (such as books) elsewhere and only *chooses* to buy them at the school as a matter of convenience, the cost may be a noninstitutional charge.

Pro rata & *Federal Refund Policy rules for equipment & other charges*

The pro rata refund and the Federal Refund Policy regulations are very specific in defining institutional and noninstitutional charges, and even though these definitions aren't requirements for nonpro rata refund calculations, schools can use them as a guide when differentiating

between institutional and noninstitutional charges, provided they are not in conflict with applicable state or accrediting agency rules.

Under pro rata and Federal Refund Policy rules, if the cost is listed in the student's enrollment agreement as a separate and required charge, or if the school refers the student to a school vendor or affiliated entity to purchase the required item, then it is considered an institutional cost. (Room charges that are collected by the school but that are "passed-through" to an unaffiliated entity do not have to be considered institutional costs so long as that entity is not controlled, affiliated with, or otherwise related to the school's owners or management.) Lastly, pro rata and Federal Refund Policy rules don't require that group health insurance fees be counted as an institutional charge, so long as the insurance is required for all students and the purchased coverage remains in effect for the entire period for which the student was charged, despite a student's withdrawal. (If not counted as an institutional charge, such a cost would be included as noninstitutional in the student's living allowance or miscellaneous expenses.)

UNPAID CHARGES

Before calculating a refund, schools must first determine the student's unpaid charges, according to the regulatory formula given below. The "Unpaid Charges" amount is used differently in nonpro rata refunds than it is in pro rata refunds, but the unpaid charges *calculation* is exactly the same, no matter what type of refund is involved:

Total Institutional Costs for the Enrollment Period
- Total Aid Paid to Institutional Costs
= Student's Scheduled Cash Payment (SCP)
- Student's Cash Paid
= UNPAID CHARGES

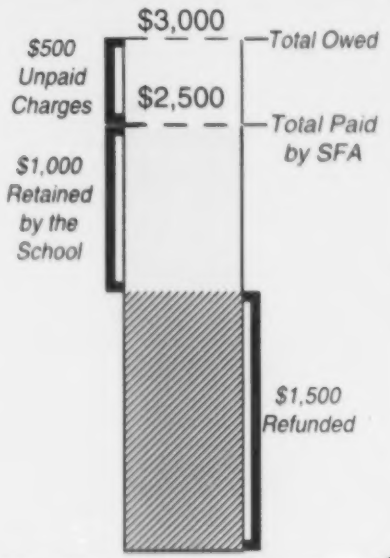
A school may choose to request any late SFA disbursements or permissible late disbursements of state student aid for which the student is still eligible and will receive in spite of having withdrawn. Note that if a school elects to receive a late disbursement, the late disbursement must be taken into account when determining the total aid received. The late disbursement amount should be counted in "Total Aid Paid to Institutional Costs." (For more on late disbursements, see page 3-90.)

For all refunds other than a statutory pro rata refund required by law, any unpaid charges must be subtracted from the amount the school could otherwise retain, as shown on the next page. (However, the applicability of this requirement to state calculations is currently under litigation; see below.)

EXAMPLE — UNPAID CHARGES

AnneMarie's institutional costs for the semester total $3,000. SFA pays for $2,500. Her scheduled cash payment is $500 ($3,000 - $2,500 = $500). AnneMarie withdraws without making any payments. Therefore, her unpaid charges equal $500. The school's state policy allows it to retain 50% of the total school costs ($3,000 x .50 = $1,500).

The unpaid charges rule requires that the school subtract AnneMarie's unpaid charges from the amount it could otherwise retain ($1,500 - $500 = $1,000). Thus, the school would refund $1,500 ($2,500 paid - $1,000 retained = $1,500 refund).



This treatment of unpaid charges reaffirms the principle that the student is primarily responsible for financing his or her own education.

Primary responsibility rests with student

In a nonpro rata refund situation, if the student's unpaid charges are equal to or greater than the amount that can be retained by the school, then the school must return all of the SFA funds (other than FWS) that were used to pay institutional charges. Also, if the school is not able to retain the full amount allowed under the applicable refund policy, it may collect the remaining balance from the student (the unpaid charges amount). If there are no unpaid charges, the school may retain the full amount allowed and cannot charge the student for any additional amount. (The underlying assumption is that the school is entitled to get only the money it *earned* during the student's enrollment, as determined by the applicable refund policy.)

After the refund is calculated, if a student who is due to receive directly a portion of a refund owes unpaid charges to the school, the school may automatically credit the refund amount to the student's account up to the amount owed by the student. If a school chooses to implement this policy, it must publicize it as part of its written refund statement provided to current and prospective students. In addition, the school must notify a student in writing when any portion of the refund that was due the student is applied to unpaid institutional charges.

As stated previously, the "Unpaid Charges" total is used differently in the statutory pro rata refund calculation. For details, see "Pro rata Refund Calculations" on page 3-92. (Note that if the school voluntarily elects to calculate a pro rata refund in situations where it is not required by federal law—such as if the school's state guidelines require it—it is a nonpro rata refund. As explained above, the unpaid charges must be subtracted from the amount the school could otherwise retain.)

"Dear Colleague" letter GEN-95-22 (DCL), published April 1995, provided information on litigation of the "unpaid charges" rule as it relates to the calculation of state refunds. The DCL stated that the courts have imposed a preliminary injunction against the Department prohibiting it from enforcing certain provisions of the regulations until the lawsuits are resolved. The DCL stated that the Department will limit the scope of program reviews and audits (provided the school was and is in compliance with all other aspects of the refund regulations) as follows:

For refunds calculated prior to November 28, 1994 (the date of the first preliminary injunction): Program reviews and audits will determine and report on whether **state** refund calculations incorporate the treatment of unpaid charges; however, no monetary liabilities will be assessed while the injunctions are in effect.

For refunds calculated on or after November 28, 1994 (until further notice): The Department will not assess any liabilities against schools that calculate refunds under the **state** policy and do not include the treatment of unpaid charges.

At this time, the guidance issued in DCL GEN-95-22 remains in effect.

LATE DISBURSEMENTS

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, in some cases, a late disbursement may be made. A late disbursement may affect the refund calculations. (For more information on late disbursements, see Section 3.)

In the past, schools have sometimes used their institutional refund policy to determine what institutional costs could reasonably have been incurred. Because the late disbursement amount is a factor in the refund calculation, this method doesn't work well. Therefore, the Department recommends that schools simply determine, **prior to calculating any**

refund amounts, what educational costs exist (for the period charged) that have not been satisfied by the student or by other sources of aid.

For instance, if institutional charges for the enrollment period total $2,000, and at the time of withdrawal only $1,500 had been paid, then institutional charges of $500 exist. Assuming the student is otherwise eligible, a late Pell disbursement of $500 could be credited to the student's account. (Even if the student was eligible for a larger Pell Grant, only $500 could be credited to institutional charges. Any remaining Pell funds for which he was eligible could be disbursed to the student, but only for noninstitutional costs incurred.)

Once a school determines the student's reasonably incurred costs, it can calculate how much if any late SFA funds may reasonably be disbursed to the student. (Some states also allow late disbursements of state aid in certain circumstances.) Schools should determine late disbursement amounts **prior to any refund or repayment calculations**. Schools should develop a policy for such determinations and must ensure that the policy is consistently applied to all withdrawal situations that involve a late disbursement of SFA and state funds.

When calculating a refund, any SFA late disbursement amount that *will be* credited to institutional charges must be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges. (For more on unpaid charges, see page 3-88.) The repayment calculation should also consider late disbursements of SFA Program funds that will be paid directly to the student for living expenses (in the case of a student's institutional charges being paid in full).

Late state disbursements

Late disbursements of state aid may also be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges, under the following circumstances:

- ◊ the late disbursement is made according to the state's written late disbursement policies, and the student is eligible for the disbursement in spite of having withdrawn, and
- ◊ the disbursement is made within 60 days of the student's withdrawal. (If the late disbursement of state aid does not come in within 60 days, the school must recalculate the SFA refund and return any additional amounts to the appropriate SFA accounts or the lender as required.)

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Other late disbursements not considered

Late disbursements of aid from sources other than the federal SFA Programs or applicable state aid may not be counted as already paid for purposes of the SFA refund and repayment calculations. Generally, all earned aid disbursements will have been received by the time a student's SFA refund and repayment amounts are calculated. In the rare case that a student aid payment from another source is received *after* the SFA refund and repayment have been calculated and processed, the funds should be handled according to the policies of the agency or entity providing the aid. In many cases, the student will still have unpaid charges or unmet living expenses for which the aid may be used.

CREDIT BALANCES

Credit balances are handled separately from the refund and repayment process. Before calculating a student's refund, a school must resolve any existing credit balance. If a student who withdraws has a credit balance, the school may determine if the student has incurred noninstitutional costs that have not been paid by other sources of aid. If the school does determine that such noninstitutional costs exist, the school may disburse to the student directly the portion of the credit balance needed to cover the incurred costs. If such noninstitutional costs do not exist, or the full amount of the credit balance is not needed to cover the costs, the school must return the balance to the SFA Programs. FFEL funds would be returned to the lender; Pell and Direct Loan funds would be returned to the appropriate school accounts (with corresponding adjustments to disbursement records sent to the Department); and FSEOG and Perkins Loan funds would be returned to the appropriate accounts at the school, for possible awarding to other students.

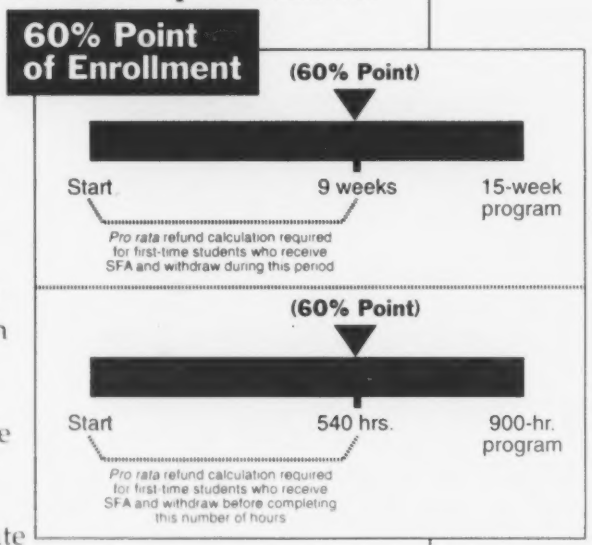
Obviously, a school will have to determine which SFA Program funds created a credit balance before it can return funds to the SFA Programs. At this time, the Department does not specify how a school must determine which SFA funds create a credit balance. However, the Department encourages schools to return SFA Program funds to loan programs first to reduce the likelihood of default. (For more information on credit balances, see Section 3.)

PRO RATA REFUND CALCULATIONS

The 1992 Amendments' "fair and equitable" refund requirement (including pro rata) apply to all participating SFA schools. A statutory pro rata calculation is required if the student received SFA funds and *both* of the following conditions apply:

◊ **The student is a first-time student.** "First-time student" is defined in the regulations as any student who has not attended at least one class at your school, or who received a full refund (less any allowable administrative fees) for previous attendance at your school. Prior attendance at another postsecondary school does not preclude a student from being a first-time student at your school. A student remains a first-time student until he or she either ceases attendance after attending at least one class, or completes the period of enrollment for which he or she has been charged.

◊ **The student withdrew on or before the 60% point in time of the enrollment period for which he or she was charged.** For credit-hour programs, this is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when the student completes 60% of the hours scheduled for the enrollment period for which the student has been charged.


60% Point of Enrollment
(60% Point)
Start
9 weeks
15-week program
Pro rata refund calculation required for first-time students who receive SFA and withdraw during this period
(60% Point)
Start
540 hrs.
900-hr. program
Pro rata refund calculation required for first-time students who receive SFA and withdraw before completing this number of hours

If *both* of the above conditions apply to the student in question, then a statutory pro rata refund must be calculated and compared to other applicable refunds (state and/or accrediting agency).

However, if the school has no applicable state or accrediting agency policies, no refund comparisons are required for any first-time student who withdrew on or before the 60% point in the enrollment period for which the student has been charged. The only applicable option for these students is pro rata, so no other calculation is necessary. For all other SFA students at a school with no applicable state or accrediting agency policies (those who are *not* both first-time and have withdrawn on or before the 60% point in the enrollment period for which the student has been charged), the school would have to calculate a Federal Refund Policy refund and an institutional refund, compare the two, and issue the largest refund.

Some different rules apply when calculating a pro rata refund. Some institutional charges can be excluded from the proration that results in the refund amount. Therefore, the amount of institutional charges that is used in a nonpro rata refund calculation may be different than the amount

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used for a pro rata calculation. The following amounts may be *excluded* from the institutional charges used to calculated a pro rata refund:

- A reasonable administrative fee, not to exceed $100 or 5% of the total institutional charges, whichever is less. This does not have to be an actual fee; a school may exclude an administrative fee (within the above limits) without specifically identifying it as a separate charge.

- The *documented cost to the school* (in other words, what the school paid for the items) of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal.

The school must indicate clearly (as part of the written statement explaining its refund policies to students) that a withdrawing student's refund will be reduced by the exclusion of an administrative fee from the refund calculation.

The school must notify the student in writing prior to enrollment that return of equipment will be required within 20 days of withdrawal. Also, the school must disclose in the enrollment agreement any restrictions on the return of equipment, including the identification of unreturnable items. The school cannot delay the payment of a refund by reason of the equipment return process.

A school may determine whether equipment may be returned to be reissued. However, a school is responsible for demonstrating that its policies for unreturnable equipment are reasonable, consistent, and fair to the student.

Charging for excludable costs

The school is entitled to bill the student for any of the charges discussed above that were *excluded* from the pro rata calculation and that were left unpaid. The school is entitled to retain 100% of those costs, and if they were not paid in full by the student or other sources, the school is entitled to bill the student. A school may also bill a student for any unpaid noneducational charges, such as an application fee. These charges are excluded entirely from the refund calculations because they cannot be paid for with SFA Program funds.

Another step unique to the pro rata refund calculation is the determination of the "portion that remains." Under a pro rata refund, the school must refund an amount proportional to the portion of the enrollment period for which the student has been charged that *was not* completed by the student. This "portion that remains" percentage is

calculated using the following formula and may be rounded down to the nearest 10%.

TO DETERMINE THE PORTION THAT REMAINS

Schools that use credit hours

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}}$$

Schools that use clock hours*

$$\frac{\text{HOURS REMAINING TO BE COMPLETED}}{\text{TOTAL HOURS IN PERIOD}}$$

Correspondence course

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}}$$

*Excused absences count as hours completed

Note that, because of the required rounding, this "portion that remains" figure will not necessarily correspond to the "percentage point in time" used to determine if a student withdrew on or before the 60% point. For instance, if a student withdraws at the 35% point in time, the portion that remains—65%—would be rounded down to 60%.

Unpaid charges treated differently

Finally, the pro rata refund calculation differs from all nonpro rata calculations in that the "unpaid charges" total is treated differently. Instead of being subtracted from the amount the school may retain, the unpaid charges are subtracted from the refund amount. Thus, a portion of the refund goes to pay the student's unpaid charges instead of being returned to the SFA Programs.

If unpaid charges exceed the refund

If the initial SFA refund is equal to or greater than the student's unpaid charges, the school will be able to retain the full amount allowed and cannot bill the student for any additional funds. However, in the rare case that the statutory pro rata refund due is less than a student's unpaid charges, the school may bill the student for the remaining amount. For instance, assume a student's statutory pro rata refund was calculated at $800, but his unpaid charges totaled $900. Assuming the pro rata calculation was the only applicable refund for the student, the school could keep the entire refund and bill the student for the remaining $100. (For more information on unpaid charges, see page 3-88.)

FEDERAL REFUND POLICY CALCULATIONS

As stated previously, a school must calculate for any SFA student a maximum of three refunds and compare those to determine the largest applicable refund for the student. Those three refunds are (1) a statutory pro rata refund, if applicable, (2) a state refund, if state standards exist, and (3) an accrediting agency refund, if the agency's policy is approved by the Department. If none of the three options above apply to a particular

student, the school must then calculate a Federal Refund Policy refund, compare it with the refund calculated under the school's own institutional refund policy, if any, and issue the larger of the two refunds. Because a Federal Refund Policy refund is a nonpro rata refund, the school must subtract any **unpaid charges** from the amount that it could otherwise retain. (See page 3-88 for more on unpaid charges.)

Refund percentages mandated

The Federal Refund Policy mandates the percentage of institutional charges that must be refunded as follows:

- ◊ withdrawal on the first day of class—**100% refund** of institutional charges (less the permitted administrative fee of the lesser of $100 or 5% of institutional charges).
- ◊ withdrawal after the first day of class through the first 10% of the enrollment period for which the student has been charged—**90% refund** of institutional charges.
- ◊ withdrawal after the first 10% of the enrollment period for which the student has been charged through the first 25% of the enrollment period for which the student has been charged—**50% refund** of institutional charges.
- ◊ withdrawal after the first 25% of the enrollment period for which the student has been charged through the first 50% of the enrollment period for which the student has been charged—**25% refund** of institutional charges.

Schools should note that if a student withdraws before his or her first day of class, SFA funds may not be used to pay any portion of a student's educational costs, no matter what refund policy a school uses for that student. A school may bill the student for any costs incurred within the bounds of any limits set by the state, accrediting agency, etc.

Equipment costs

As with the pro rata refund policy, a school may *exclude* from the institutional charges used to calculated the Federal Refund Policy refund a reasonable administrative fee, not to exceed $100 or 5% of the total institutional charges, whichever is less. A school may also exclude the documented cost *to the school* of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal. (See page 3-94 for more details.)

Institutional charges

The Federal Refund Policy also follows the same requirements as the pro rata refund policy in the following areas: (1) determination of institutional charges, (2) treatment of "passed-through" room charges, and (3) treatment of group health insurance fees. (See pages 3-88 and 3-92 for more information.)

A different situation may occur—repayment—when a student received SFA funds as a disbursement to cover living expenses. Living expenses are defined as education costs above and beyond the tuition and fee charges, including items such as room and board (if the student does not contract with the school), books, supplies, transportation, and child-care expenses.

Living expenses incurred

When a student who received directly an SFA disbursement ceases attendance, the school must determine whether the student must repay a portion of the disbursement. If the school finds that the student's living expenses incurred up to the time of withdrawal exceed the amount of funds disbursed, the student does not owe a repayment. However, if the disbursement was greater than the student's living expenses up to the withdrawal date, the student must repay the excess amount.

Remember, as with refunds, FWS wages are excluded because they have been earned. FFEL and Direct Loan funds are not counted in figuring the amount of the repayment (because the student is already obligated to repay these funds to the lender).

The school is responsible for notifying the student of the amount owed, for billing the student, and for collecting the repayment. However, a school is not liable for the owed amount if it cannot collect the repayment from the student. In such a case, the student is ineligible for further SFA funds, and must be reported as being in overpayment status on the financial aid transcript or submissions to the National Student Loan Data System (NSLDS).

Referring overpayments

A student who fails to repay Pell or FSEOG funds can be referred to the Department for collection purposes, unless the overpayment is the result of school error. In addition, the student's failure to repay the Pell or FSEOG funds must be reported to the NSLDS. The Department will refer the account to its collection agent, and the student's record will be placed in a subsystem database match of the Central Processing System (CPS). Until the overpayment is resolved, the CPS will flag any future FAFSA filed by that student; on the resulting output record, comments will explain the overpayment owed and will instruct the school and student in resolving the matter. See *The Verification Guide* for information on referring overpayment cases to the Department. For more information on the NSLDS, see Chapter 2.

REFUNDS OF $25 OR LESS AND REPAYMENTS UNDER $100

A school does not have to pay a refund of $25 or less. However, because a refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay, a school may not keep any portion of a refund that would be distributed to an SFA loan program unless the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's debt, should the student withdraw.

A school is not required to actually calculate the refund to prove that it is $25 or less if it can demonstrate that the institutional charges are so low that no refund would exceed $25.

Also (unless otherwise provided for in regulations for a specific SFA Program), if the amount of a repayment is less than $100, a student is considered not to owe the repayment, and the school is not required to contact the student or recover the repayment.

ALLOCATING REFUNDS AND REPAYMENTS

Refund and repayment amounts must be distributed according to a specific order of priority prescribed in the law and regulations. The school's refund or repayment allocation may not deviate from the prescribed order, even if the school's agreement with a state or private agency requires the school to return a specific percentage of the aid provided by that agency. **Federal laws and regulations supersede all other requirements and must be followed.**

Note that a school must allocate a refund or repayment in the order specified even if all SFA funds were disbursed to the student to cover noninstitutional costs. For example, the only SFA funds that a student receives is an $800 Stafford Loan. The school disburses the $800 Stafford Loan directly to the student to cover some of the student's noninstitutional costs. The student's institutional costs are covered by other sources. When the student withdraws, the school uses the SFA refund requirements to determine that the refund is $600. This $600 must be returned to the Stafford Loan.

Refunds on behalf of SFA recipients must be distributed in the following order:

1. Unsubsidized Federal Stafford Loans
2. Subsidized Federal Stafford Loans
3. Federal PLUS Loans
4. Unsubsidized Federal Direct Stafford Loans
5. Subsidized Federal Direct Stafford Loans
6. Federal Direct PLUS Loans
7. Federal Perkins Loans
8. Federal Pell Grants
9. FSEOGs
10. Other SFA Programs
11. Other federal, state, private, or institutional sources of aid
12. The student

Repayments from SFA recipients must be distributed as follows:

1. Federal Perkins Loans
2. Federal Pell Grants
3. FSEOGs
4. Other SFA Programs
5. Other federal, state, private, or institutional sources of aid

Funds returned to any SFA Program may not exceed those received from that program. However, in some cases, if the school returns the required amount of the refund, the entire outstanding balance of the loan will be eliminated because the holder of the loan will pay off a portion of the loan balance.

If the amount of a FFEL that is delivered to a student (the net amount) is returned by the school or the student within 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. Similarly, if the amount of a Direct Loan that is disbursed to a student is returned by the school or the student within 120 days of the disbursement, the Department must return any deducted loan fees to the student's account.

In addition, if the amount of a FFEL that is delivered to a student is returned by the school (not the student) *after* 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. The same is not true for Direct Loans. If a Direct Loan is repaid in full by either the school or the student after the 120 days, the deducted loan fees are not returned to the student's account.

After making the refund for FFEL and/or Direct Loan funds, any additional refund amounts should be distributed to other sources of aid in the required order.

A school may use its own funds to eliminate remaining FFEL balances for a period of enrollment if a refund results in the school returning less than the amount needed to eliminate the loan balance. A school may contribute its own funds at the time of the distribution of the refund only. A school may not use its own funds to eliminate any portion of a loan balance after the refund has been made, or if no refund is required. For unsubsidized loans where interest has already accrued when the student withdraws, a school may pay off the accrued interest only if the school determines the exact amount of the accrued interest for the period of enrollment.

TIME FRAMES FOR RETURN OF FUNDS

The regulations establish deadlines for the return of funds to the SFA Programs and to a student. In addition, schools are required to determine the withdrawal date for unofficial withdrawals by a certain time. The chart on the next page lists the time frames for the return of funds when a refund occurs.

A repayment must be returned to the appropriate SFA Program accounts within 30 days of the date the student repays the funds.

Time Frames for Return of Funds

Reason for refund calculation	SFA funds (non-FFEL) must be returned to SFA Program accounts within...	FFEL funds must be returned to the lender within...	Funds due to a student must be paid within...	Determination of the student's withdrawal date must be made within...
Official withdrawal	30 days from the later of— • last date of attendance • student notification	60 days from the later of— • last date of attendance • student notification	30 days from the later of— • last date of attendance • student notification	N/A
Unofficial withdrawal	30 days of date of determination by school that student ceased attending	60 days of date of determination by school that student ceased attending	30 days of earlier of— • date of determination by school that student ceased attending • end of term • end of period of enrollment for which the student has been charged	30 days of earlier of the end of— • the academic year • the program • the period of enrollment for which the student has been charged
Never returned from approved leave of absence	30 days of earlier of— • end of the LOA • student notification	30 days of earlier of— • end of the LOA • student notification	30 days of earlier of— • end of the LOA • student notification	N/A
Unapproved leave of absence	30 days from student's last recorded date of attendance	60 days of the last recorded date of attendance	30 days from student's last recorded date of attendance	N/A

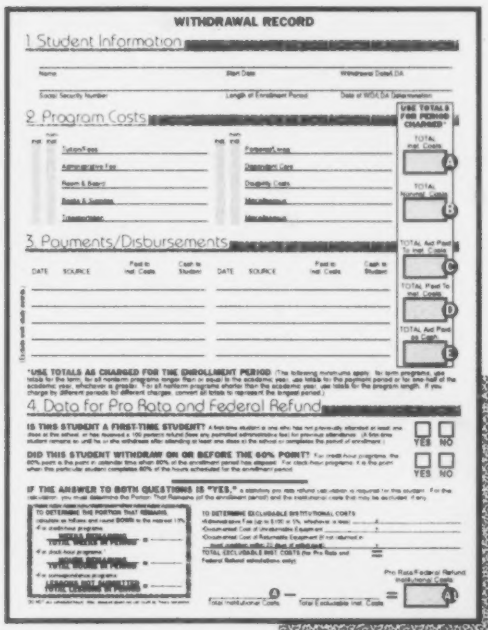
2/3

Refund & Repayment

Case Studies

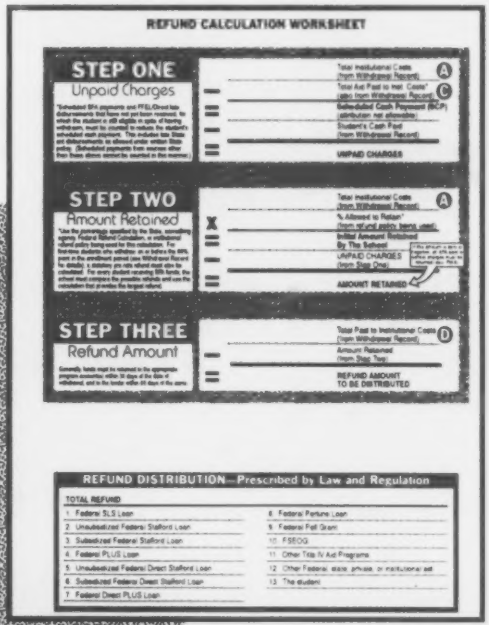
WITHDRAWAL RECORD (WR)

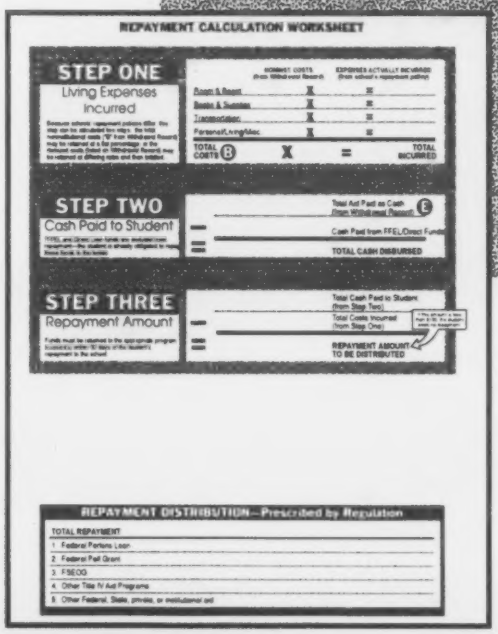
Completed properly when a student withdraws, this document provides all the data needed to calculated refunds and repayments and organizes it so that it's easy to use.



REFUND CALCULATION WORKSHEET

Completed using the figures from the WR, this Worksheet calculates unpaid charges and refunds, and can be used for non*pro rata* refund policies (except the Federal Refund Calculation.





REPAYMENT CALCULATION WORKSHEET

This Worksheet uses figures from the WR to calculate the repayment owed by the student.

PLUS, Pro Rata and Federal Refund Calculation Worksheets

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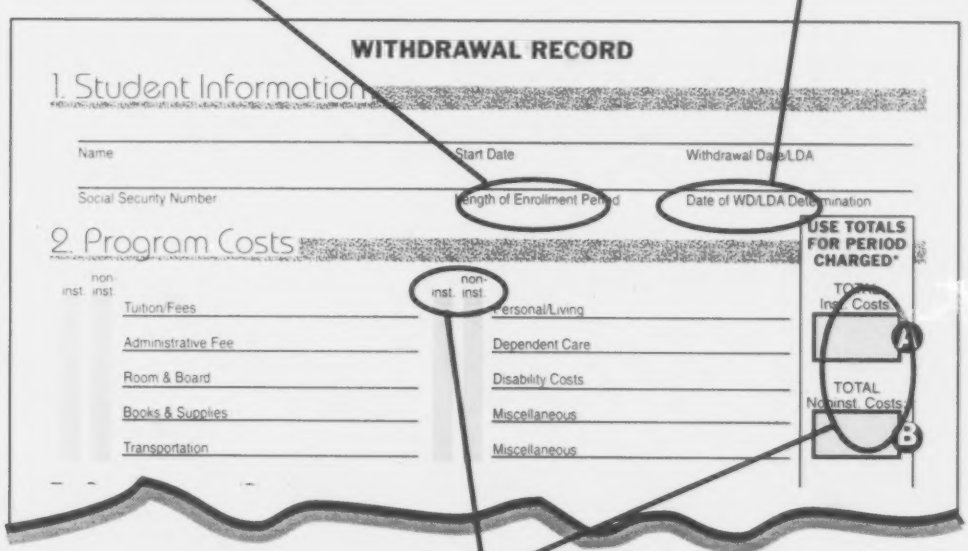
Using The Withdrawal Record

Each case study begins with a Withdrawal Record (WR). Filled out properly, the WR easily organizes all the information needed to calculate refunds and repayments. The diagrams on these two pages describe how the WR is used and summarizes some important refund and repayment requirements. A blank WR and blank Worksheets appear on pp. 3-108 through 3-112, followed by two case studies showing the calculations of two regular (i.e., non*pro rata)* refunds and a repayment. The last three case studies are *pro rata* refund examples.

Length of Enrollment Period. Use the enrollment period for which the student was charged, in keeping with the following minimums. For term programs, the minimum enrollment period is the term. For nonterm programs longer than or equal to an academic year, the minimum enrollment period is either the payment period or one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, the minimum period is the program length.

Date of WD/LDA Determination. Generally, all SFA refunds must be completed within 30 days of the student's withdrawal. However, the school may not discover an unofficial withdrawal until well after that deadline. In such cases, the deadline for return of funds turns on the date of the school's determination.



Total Institutional and Non-institutional Costs. School charges, such as tuition and fees, are treated differently from expenses that are not charged by the school. (For a discussion of what constitutes an institutional vs. a noninstitutional charge, see pg. 3-87.)

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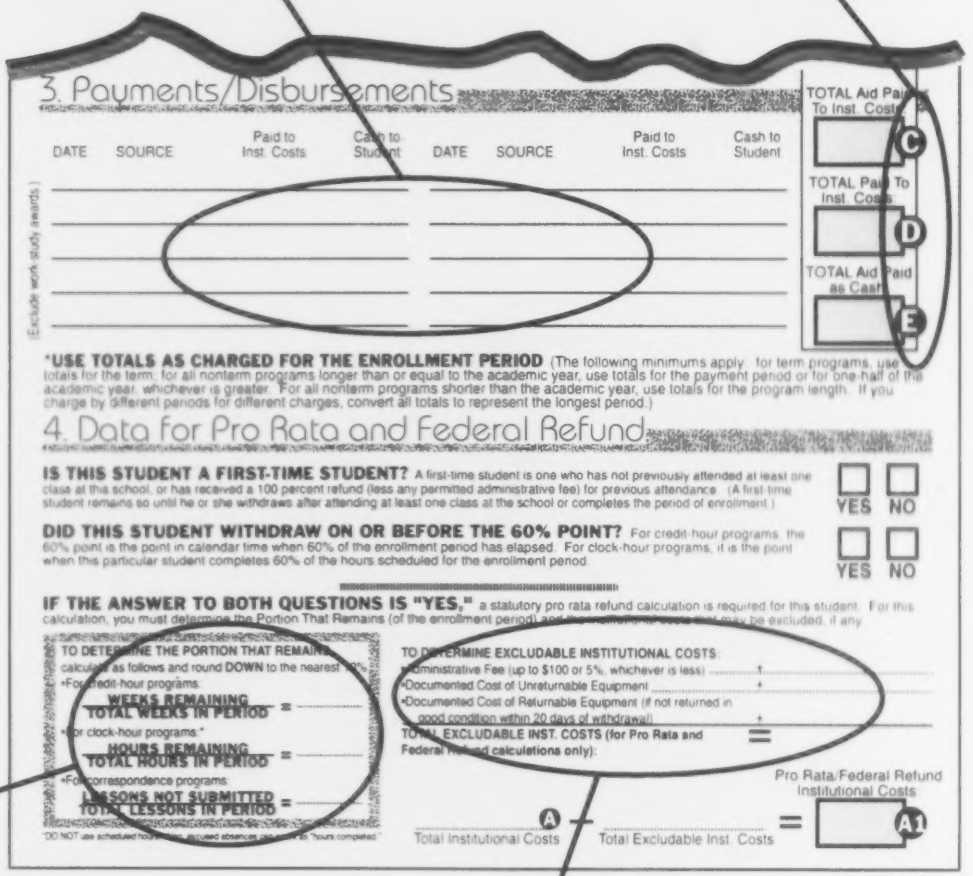
Aid Received.
This section records all aid and student payments received by the school, except work-study aid. For the loan programs, the amounts *received* are used (the origination and insurance fees are excluded). Refunds apply only to funds used to pay institutional charges (including student payments), while repayments deal only with aid that is disbursed directly to the student. Therefore, it's important to know which funds paid institutional costs and which were disbursed in cash (or check) to the student for noninstitutional costs. (If part of a payment went to the school while the remainder was disbursed to the student, the exact amount that went to each destination must be recorded.)

Aid Totals.
Total C should include **all** aid (not just SFA funds) paid to school charges. Total D should reflect **all** amounts (including student payments) paid to school charges. Total E should include **all** aid (not just SFA funds) paid to the student in cash.


3. Payments/Disbursements

DATE SOURCE Paid to Inst. Costs Cash to Student DATE SOURCE Paid to Inst. Costs Cash to Student

(Exclude work study awards.)

TOTAL Aid Paid To Inst. Costs C

TOTAL Paid To Inst. Costs D

TOTAL Aid Paid as Cash E

*USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☐ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☐ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the excludable costs, if any.

TO DETERMINE THE PORTION THAT REMAINS calculate as follows and round DOWN to the nearest 10%:
•For credit-hour programs:
WEEKS REMAINING / TOTAL WEEKS IN PERIOD =
•For clock-hour programs:*
HOURS REMAINING / TOTAL HOURS IN PERIOD =
•For correspondence programs:
LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD =
*DO NOT use scheduled hours, excused absences, or make-up hours as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:
•Administrative Fee (up to $100 or 5%, whichever is less) +
•Documented Cost of Unreturnable Equipment +
•Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only) =

Pro Rata/Federal Refund Institutional Costs

A Total Institutional Costs − Total Excludable Inst. Costs = A1

Portion that Remains for *Pro Rata*. The "portion that remains" figure is needed for *pro rata* calculations.

Special Determinations for *Pro Rata* and Federal Refund Calculation. If a student qualifies for a *pro rata* or Federal Refund calculation, the excludable costs (according to the regulatory rules) are needed for a refund calculation.

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WARNING: DO NOT use without the accompanying instructions!!

WITHDRAWAL RECORD

1. Student Information

Name | Start Date | Withdrawal Date/LDA

Social Security Number | Length of Enrollment Period | Date of WD/LDA Determination

2. Program Costs

	inst.	noninst.		inst.	noninst.
Tuition/Fees			Personal/Living		
Administrative Fee			Dependent Care		
Room & Board			Disability Costs		
Books & Supplies			Miscellaneous		
Transportation			Miscellaneous		

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: (A)

TOTAL Noninst. Costs: (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student

TOTAL Aid Paid To Inst. Costs: (C)

TOTAL Paid To Inst. Costs: (D)

TOTAL Aid Paid as Cash: (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☐ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☐ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- *For credit-hour programs:
  $$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \ldots\ldots$$
- *For clock-hour programs:*
  $$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \ldots\ldots$$
- *For correspondence programs:
  $$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \ldots\ldots$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- *Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- *Documented Cost of Unreturnable Equipment ..... +
- *Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) ..... +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

(A) Total Institutional Costs − Total Excludable Inst. Costs = Pro Rata/Federal Refund Institutional Costs: (A1)

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REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record)	A
−	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	Student's Cash Paid (from Withdrawal Record)	
=	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	Total Institutional Costs (from Withdrawal Record)	A
X	% Allowed to Retain* (from refund policy being used)	
=	**Initial Amount Retained By The School**	
−	UNPAID CHARGES (from Step One)	
=	**AMOUNT RETAINED**	

If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	Total Paid to Institutional Costs (from Withdrawal Record)	D
−	Amount Retained (from Step Two)	
=	**REFUND AMOUNT TO BE DISTRIBUTED**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

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REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board	X	=	
Books & Supplies*	X	=	
Transportation	X	=	
Personal/Living/Misc.	X	=	
TOTAL COSTS (B)	X	=	TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	Total Aid Paid as Cash (from Withdrawal Record) (E)	
–	Cash Paid from FFEL/Direct Funds*	
=	TOTAL CASH DISBURSED	

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	Total Cash Paid to Student (from Step Two)	
–	Total Costs Incurred (from Step One)	If this amount is less than $100, the student owes no repayment
=	REPAYMENT AMOUNT TO BE DISTRIBUTED	

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

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FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record)	A
−	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	Student's Cash Paid (from Withdrawal Record)	
=	**UNPAID CHARGES**	

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same

	Federal Refund Calculation Inst. Costs (from Withdrawal Record)	A1
X	% to be Refunded (from the regulatory policy)	
=	**REFUND AMOUNT TO BE DISTRIBUTED**	

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

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PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record)	A
−	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	**Student's Scheduled Cash Payment (SCP)**	
−	Student's Cash Paid (from Withdrawal Record)	
=	**UNPAID CHARGES**	

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	Pro Rata Institutional Costs (from Withdrawal Record)	A1
X	% to be Refunded (from the Portion That Remains)	
=	**Initial Refund Amount**	
−	Unpaid Charges (from Step One)	
=	**ACTUAL REFUND TO BE DISTRIBUTED**	

If this amount is negative the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #1

•Term school
•Non-pro rata refund
•Unpaid charges due

SCHOOL PROFILE

Cottonwood University is a residential school offering two- and four-year programs on a semester term system. CU participates in the Pell, FFEL, and campus-based programs. Each semester is 15 weeks long, and the school uses the following refund policy, according to State law:

Student Withdraws:	School Retains:
Before classes	0% (Full refund)
First two weeks	20%
Third or Fourth week	30%
Fifth or Sixth week	50%
Seventh or Eighth week	75%
Ninth or Tenth week	90%
After Tenth week	100% (No refund)

For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the remaining weeks in the term.

STUDENT PROFILE

Russlyn McCullough enrolled as a freshman for the Fall Semester at Cottonwood University. She moved into the dorms. Her costs for the semester are as follows (institutional costs are asterisked):

Tuition & Fees*	$2400
Room & Board*	$3090
Books & Supplies	$600
Transportation	$850
Personal Expenses	$900

Russlyn received the following financial aid for the academic year:

Federal Pell	$2150
FSEOG	$1100
Federal Stafford	$2500
Federal Work-Study	$1500
CU Scholarship	$1000
Rotary Scholarship•	$500

•(for 1st semester only)

Classes started on August 30, and Russlyn officially withdrew on November 1, in the tenth week.

DISBURSEMENTS AND PAYMENTS

CU received Russlyn's financial aid for the semester in the following order and amounts: $1075 Pell, $500 CU scholarship, $550 FSEOG, $1163 Stafford, and $500 Rotary scholarship. All these amounts, plus Russlyn's $500 cash payment, were credited to her account. No cash was disbursed, but Russlyn did earn FWS each week.

IMPORTANT POINTS

Although Russlyn is a first-time student, because she withdrew after the 60% point in the term, a statutory pro rata calculation is not required. Because CU charges by the term, the costs and aid received for the semester are used on the WR. Note that origination and insurance fees were deducted from the Stafford amount reported on the WR, and that Russlyn's FWS award and earnings do not appear anywhere on the WR, because earnings from work cannot be recovered.

Because Russlyn's financial aid was not sufficient to pay her total school charges, unpaid charges exist and will affect the refund amount. No repayment calculation is necessary because Russlyn did not receive a cash disbursement of SFA funds. Refund distribution is prescribed by law, and CU returns the federal SFA funds first to the Stafford lender.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Russlyn McCullough	8/30	OFFICIAL—11/03
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	15-week semester	11/03

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	2400	✓		Personal/Living	900
		Administrative Fee				Dependent Care	
✓		Room & Board	3090			Disability Costs	
	✓	Books & Supplies	600			Miscellaneous	
	✓	Transportation	850			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 5490 (A)

TOTAL Noninst. Costs: 2350 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Pell	1075			Rotary	500	
	C.U.	500					
	student	500					
	FSEOG	550					
	Stafford	1163					

TOTAL Aid Paid To Inst. Costs: 3788 (C)

TOTAL Paid To Inst. Costs: 4288 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☐ YES ☑ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use *scheduled* hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only) =

(A) Total Institutional Costs — ..... Total Excludable Inst. Costs = Pro Rata/Federal Refund Institutional Costs: (A1)

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REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	5490	Total Institutional Costs (from Withdrawal Record)	A
−	3788	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	1702	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	500	Student's Cash Paid (from Withdrawal Record)	
=	1202	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	5490	Total Institutional Costs (from Withdrawal Record)	A
X	90%	% Allowed to Retain* (from refund policy being used)	
=	4941	**Initial Amount Retained By The School**	
−	1202	UNPAID CHARGES (from Step One)	
=	3739	**AMOUNT RETAINED**	

If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

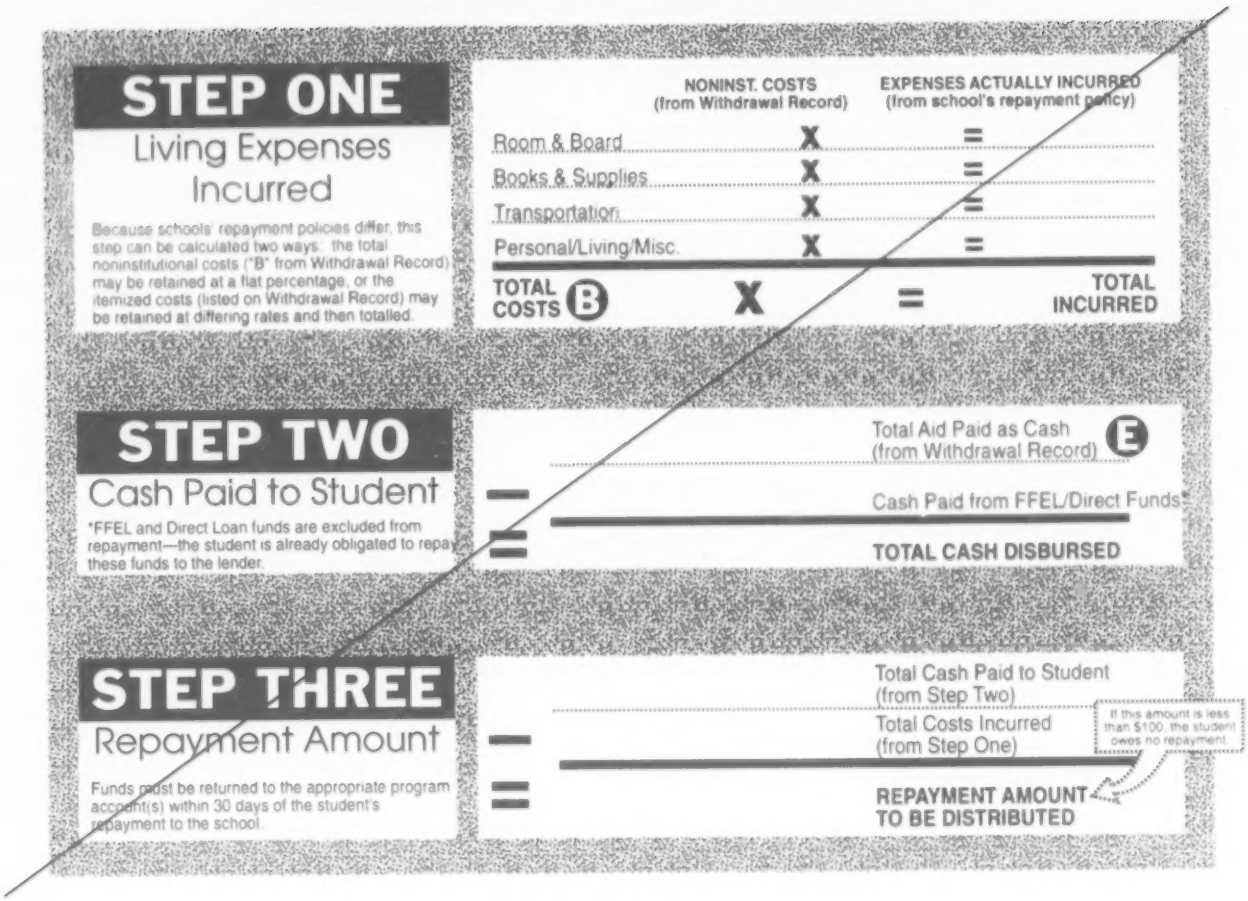
	4288	Total Paid to Institutional Costs (from Withdrawal Record)	D
−	3739	Amount Retained (from Step Two)	
=	549	**REFUND AMOUNT TO BE DISTRIBUTED**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 549

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan 549	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board X =
Books & Supplies X =
Transportation X =
Personal/Living/Misc. X =
TOTAL COSTS B X = TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
— Cash Paid from FFEL/Direct Funds*
= TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
— Total Costs Incurred (from Step One)
If this amount is less than $100, the student owes no repayment.
= REPAYMENT AMOUNT TO BE DISTRIBUTED

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

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NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #2

•Term school
•Nonpro rata refund
•No unpaid charges due

SCHOOL PROFILE

Buchanan Community College offers one- and two-year programs on a quarter term system. BCC participates in the Pell and FFEL programs. There is no on-campus housing; books can be purchased at any local bookstore. Each quarter is 11 weeks and BCC's refund policy is based on State law:

Student Completes:	School Retains:
Less than 15%	20%
16-30%	45%
31-50%	65%
51-80%	85%
81% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the percentage of the term completed. BCC has all student loans disbursed by quarter, rather than in only two disbursements.

STUDENT PROFILE

Terry Christiansen enrolled as a sophomore for the Fall Quarter at BCC. He rented an off-campus apartment, and his costs for the quarter are as follows (institutional costs are asterisked):

Tuition & Fees*	$650
Room & Board	$1100
Books & Supplies	$210
Transportation	$300
Personal Expenses	$450

Terry received the following financial aid for the academic year:

Federal Pell	$2200
Federal Stafford	$2625
State Grant (non-SSIG)	$1000

Classes started on August 29, and Terry withdrew unofficially during the term. At the end of the quarter, BCC records showed that Terry took an exam on September 18. With no further record of attendance for Terry, BCC used that date as Terry's last date of attendance.

DISBURSEMENTS AND PAYMENTS

BCC received Terry's State grant disbursement of $334 and credited it to his account. When his $814 Stafford disbursement came in, $316 went to the school account and the rest was paid to Terry in cash. The $734 Pell disbursement was also paid in cash to Terry.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Terry. In completing the WR, BCC uses the costs and aid received for the quarter. (The origination and insurance fees have been deducted from the Stafford amount reported on the WR.)

Because Terry's financial aid paid his institutional costs, there are no unpaid charges. In the repayment calculation, living expenses incurred are calculated using the rates specified in the school's policy, based on the number of weeks Terry attended. It is BCC's policy to count a 4-day week as a full week, so Terry attended 3 weeks. (To figure the percentage incurred, BCC uses a ratio of weeks completed ÷ total weeks in enrollment period, or 3 ÷ 11, which equals 27%. This percentage is used on the Repayment Calculation Worksheet, for all living expenses except books & supplies, which were incurred at the rate of 50% as noted in the School Profile above.)

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Terry Christiansen	8/30	UNOFFICIAL—9/18
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	11-week quarter	11/15

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	650	✓		Personal/Living	450
		Administrative Fee				Dependent Care	
	✓	Room & Board	1100			Disability Costs	
	✓	Books & Supplies	210			Miscellaneous	
	✓	Transportation	300			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 650 (A)

TOTAL Noninst. Costs: 2060 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	State	334					
	Stafford	316	498				
	Pell		734				

TOTAL Aid Paid To Inst. Costs: 650 (C)

TOTAL Paid To Inst. Costs: 650 (D)

TOTAL Aid Paid as Cash: 1232 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%.

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \ldots\ldots$$

- For clock-hour programs:*

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \ldots\ldots$$

- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \ldots\ldots$$

*DO NOT use *scheduled* hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

..... (A) Total Institutional Costs − ..... Total Excludable Inst. Costs = (A1)

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REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	650	Total Institutional Costs (from Withdrawal Record)	A
−	650	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	0	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	0	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	650	Total Institutional Costs (from Withdrawal Record)	A
X	45%	% Allowed to Retain* (from refund policy being used)	
=	293	**Initial Amount Retained By The School**	
−	0	UNPAID CHARGES (from Step One)	
=	293	**AMOUNT RETAINED**	

If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS)

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	650	Total Paid to Institutional Costs (from Withdrawal Record)	D
−	293	Amount Retained (from Step Two)	
=	357	**REFUND AMOUNT TO BE DISTRIBUTED**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 357

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	357	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

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REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)		
Room & Board	1100	X	27%	=	297
Books & Supplies	210	X	50%	=	105
Transportation	300	X	27%	=	81
Personal/Living/Misc.	450	X	27%	=	122
TOTAL COSTS (B)		X		= 605	TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

1232	Total Aid Paid as Cash (from Withdrawal Record) (E)	
− 498	Cash Paid from FFEL/Direct Funds*	
= 734	TOTAL CASH DISBURSED	

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

734	Total Cash Paid to Student (from Step Two)	
− 605	Total Costs Incurred (from Step One)	If this amount is less than $100, the student owes no repayment
= 129	REPAYMENT AMOUNT TO BE DISTRIBUTED	

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT	129
1. Federal Perkins Loan	
2. Federal Pell Grant	129
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

Case Study #3

•Non-term school
•Statutory pro rata refund
•Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI uses its State refund guidelines:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Wendy Loggins enrolled in a 900-hour program at Copperfield. She rents an apartment, and her costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$4500
Room & Board	$2730
Books & Supplies	$630
Transportation	$900
Personal Expenses	$1350

Wendy received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$3600

Wendy began her program on October 2 and officially withdrew on February 16 of the next year, after completing 450 clock hours (50% of the program). CTI calculated both a State refund and a statutory pro rata refund, and found that the statutory pro rata refund was the largest.

DISBURSEMENTS AND PAYMENTS

Wendy's Stafford disbursement of $1221 went to pay school charges, as did the Pell disbursement of $1150 and the PLUS disbursement of $1674. The school did not disburse any cash to Wendy.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, CTI uses the costs and amounts paid for the entire program (which is the enrollment period).

Wendy has an unpaid balance, but it will be treated differently under the statutory pro rata calculation—unpaid charges are subtracted from the initial refund amount. No repayment is calculated because no cash was disbursed. The refund is distributed first to Stafford and then to PLUS.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Wendy Loggins	10/04	OFFICIAL—2/18
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	900-hr/30-wk. acad year	2/18

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	4500		✓	Personal/Living	1350
		Administrative Fee				Dependent Care	
	✓	Room & Board	2730			Disability Costs	
	✓	Books & Supplies	630			Miscellaneous	
	✓	Transportation	900			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 4500 (A)

TOTAL Noninst. Costs: 5610 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	1221					
	Pell	1150					
	PLUS	1674					

TOTAL Aid Paid To Inst. Costs: 4045 (C)

TOTAL Paid To Inst. Costs: 4045 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: $\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} =$ .....
- For clock-hour programs:* $\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \frac{450}{900}$
- For correspondence programs: $\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} =$ .....

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... + 0
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

4500 (A) — 0 = 4500 (A1)

Total Institutional Costs — Total Excludable Inst. Costs

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	4500	Total Institutional Costs (from Withdrawal Record) (A)
−	4045	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)
=	455	**Student's Scheduled Cash Payment (SCP)**
−	0	Student's Cash Paid (from Withdrawal Record)
=	455	**UNPAID CHARGES**

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	4500	Pro Rata Institutional Costs (from Withdrawal Record) (A1)
X	50%	% to be Refunded (from the Portion That Remains)
=	2250	**Initial Refund Amount**
−	455	Unpaid Charges (from Step One)
=	1795	**ACTUAL REFUND TO BE DISTRIBUTED**

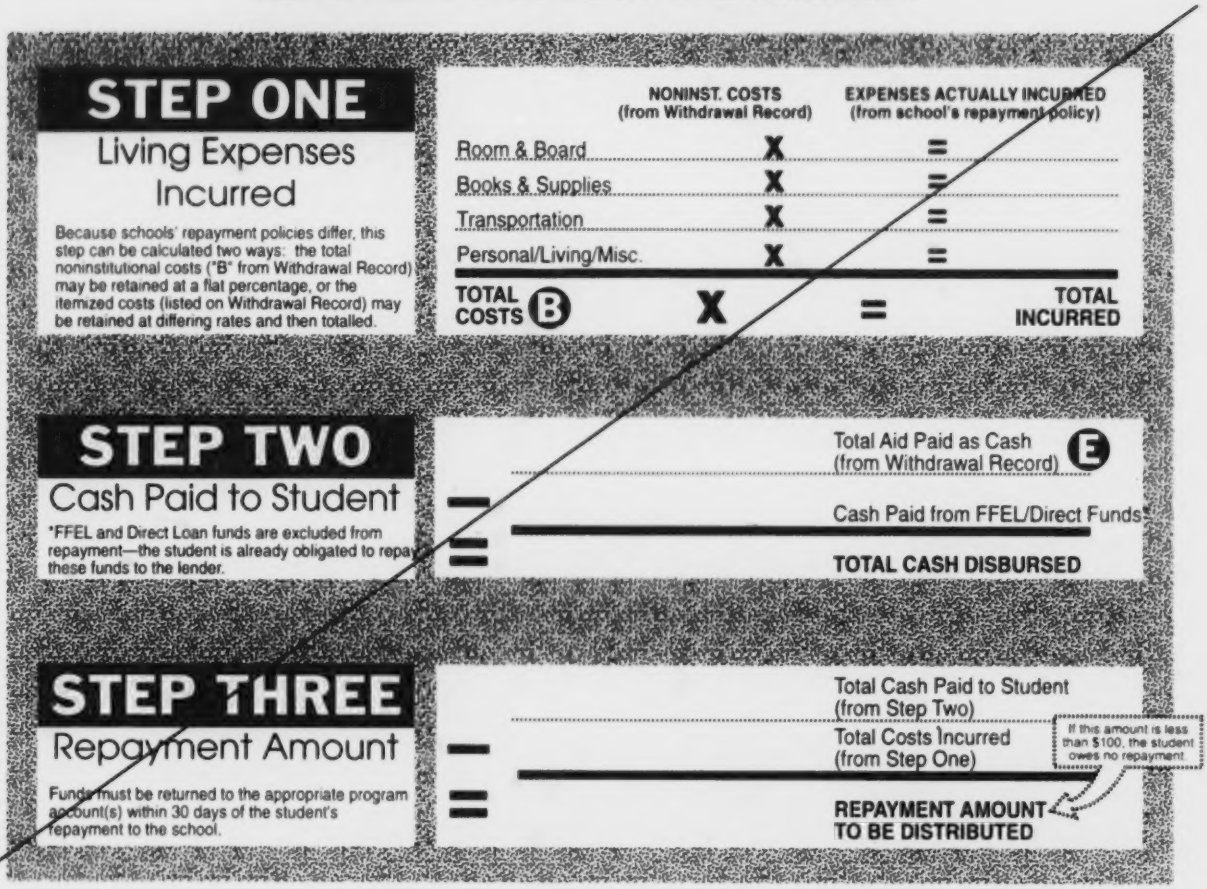
If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1795

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	1221	10. FSEOG	
4. Federal PLUS Loan	574	11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board X =
Books & Supplies X =
Transportation X =
Personal/Living/Misc. X =
TOTAL COSTS B X = TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
Cash Paid from FFEL/Direct Funds*
TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
Total Costs Incurred (from Step One)
If this amount is less than $100, the student owes no repayment
REPAYMENT AMOUNT TO BE DISTRIBUTED

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #4

•Non-term school
•Federal Refund Calculation
•Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI's institutional refund policy is as follows:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Tom Servo enrolled as a sophomore in a 1200-hour program at Copperfield. He lives at home with his parents, and his costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$6000
Room & Board	$3640
Books & Supplies	$850
Transportation	$1200
Personal Expenses	$1850

Tom received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$4000

Tom began his program on January 11 and last attended class on May 3, after completing 420 clock hours (35% of the program). There is no state or accrediting agency policy, and pro rata does not apply, so CTI compared its institutional refund to the Federal Refund Policy. The Federal Refund was larger.

DISBURSEMENTS AND PAYMENTS

Tom's Pell disbursement of $1150 was applied to school charges, as were the first disbursements of both the Stafford and the PLUS loans, in the amounts of $928 and $1414 respectively (CTI requested that the lender disburse by payment period). No cash was disbursed.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Tom. Because CTI is located in a State that does not have a refund policy, and CTI's accrediting agency's policy has not been approved by the Department, CTI must compare its institutional refund policy to the Federal Refund Calculation to determine the largest available refund. In Tom's case, the Federal Refund Calculation resulted in a larger refund.

In completing the WR, CTI uses the costs and amounts paid for the entire program. Tom withdrew after completing 35% of the enrollment period (after the first 25% but before the first 50% of the period), so he is due a 25% refund of his institutional charges. (CTI can exclude a $100 administrative fee before assessing the 25%.) No repayment is calculated because no cash was disbursed.

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WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Tom Servo	1/11	UNOFFICIAL—5/03
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	1200-hr program	10/18

2. Program Costs

non-inst.	inst.			non-inst.	inst.		
✓		Tuition/Fees	6000	✓		Personal/Living	1850
		Administrative Fee				Dependent Care	
	✓	Room & Board	3640			Disability Costs	
	✓	Books & Supplies	850			Miscellaneous	
	✓	Transportation	1200			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 6000 (A)

TOTAL Noninst. Costs: 7540 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	928					
	Pell	1150					
	PLUS	1414					

TOTAL Aid Paid To Inst. Costs: 3492 (C)

TOTAL Paid To Inst. Costs: 3492 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) + 100
- Documented Cost of Unreturnable Equipment +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): = 100

6000 (A) — 100 = Pro Rata/Federal Refund Institutional Costs: 5900 (A1)

Total Institutional Costs — Total Excludable Inst. Costs

FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	6000	Total Institutional Costs (from Withdrawal Record)	A
−	3492	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	2508	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	2508	**UNPAID CHARGES**	

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	5900	Federal Refund Calculation Inst. Costs (from Withdrawal Record)	A1
X	25%	% to be Refunded (from the regulatory policy)	
=	1475	**REFUND AMOUNT TO BE DISTRIBUTED**	

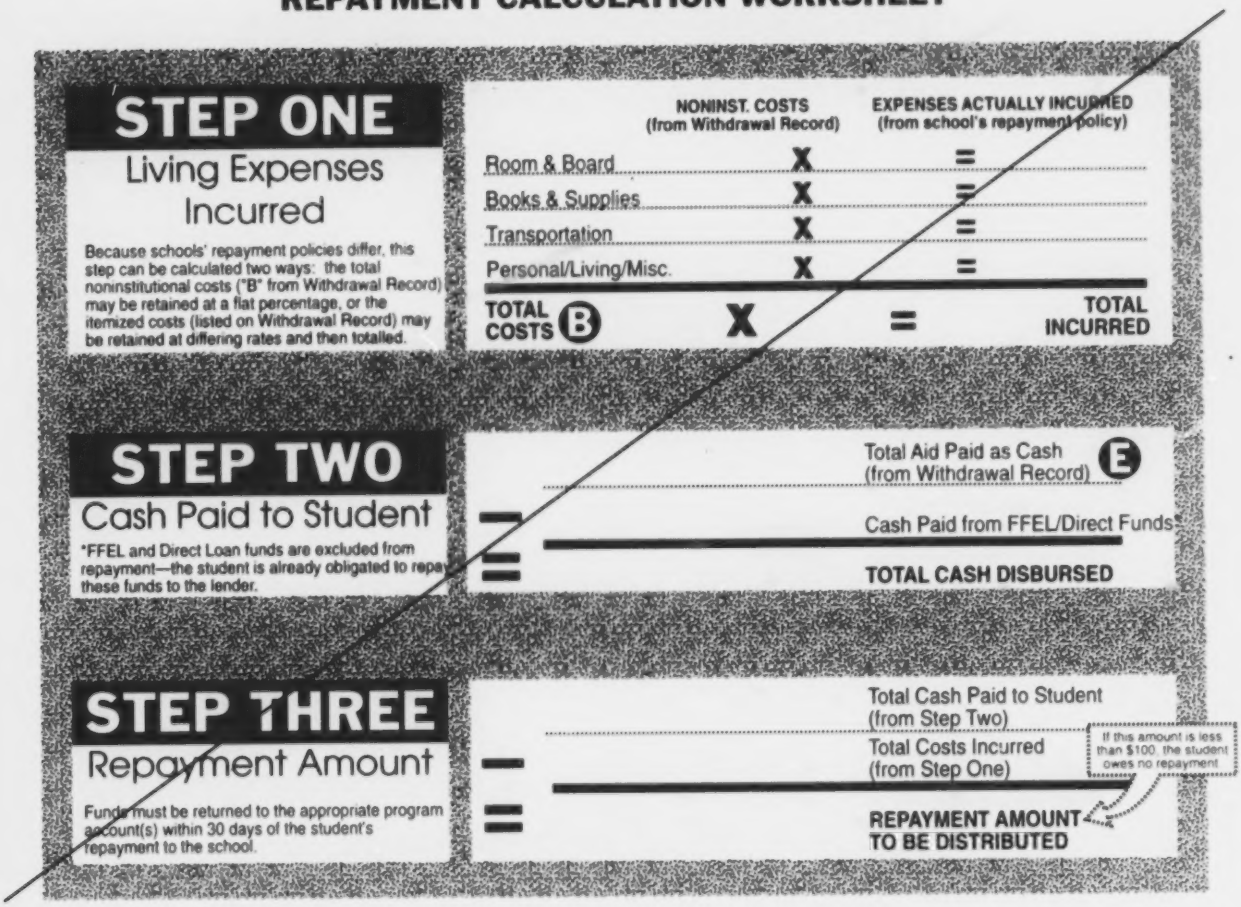
***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1475

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	928	10. FSEOG	
4. Federal PLUS Loan	547	11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board
Books & Supplies
Transportation
Personal/Living/Misc.
TOTAL COSTS B
X
=
TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
Cash Paid from FFEL/Direct Funds*
TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
Total Costs Incurred (from Step One)
If this amount is less than $100, the student owes no repayment
REPAYMENT AMOUNT TO BE DISTRIBUTED

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #5

•Term school
•Statutory pro rata refund
•No unpaid charges due

SCHOOL PROFILE

The Rigby Academy offers two- and four-year programs and participates in the Pell, FFEL, and campus-based programs. The academic year is divided into three quarter terms, each 10 weeks long. Rigby uses its State policy:

Student Withdraws:	School Retains:
In the first week:	10%
Second or third week:	40%
Fourth week:	75%
After fourth week:	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed. Rigby charges a $60 administrative fee to all students; this charge is explained in the enrollment agreement.

STUDENT PROFILE

Robert Harbin enrolled in a two-year program at Rigby. His costs for the term are as follows (institutional costs are asterisked):

Tuition & Fees*	$1200
Administrative Fee*	$60
Room & Board	$1000
Books & Supplies	$205
Transportation	$250
Personal Expenses	$750

Robert received the following financial aid for the academic year:

Federal Pell	$1950
Federal Stafford	$2325
FSEOG	$1150
Federal Perkins	$850
Institutional Scholarship	$600

Classes began on February 22 and Robert officially withdrew in the fifth week. Under Rigby's policy, Robert would receive no refund. However, he is entitled to a statutory pro rata refund.

DISBURSEMENTS AND PAYMENTS

Robert's $300 cash payment and $960 of the Stafford disbursement were credited to the school's account; the remaining $121 of Stafford funds were disbursed in cash to Robert. Then, $650 from Pell, $384 from FSEOG, $283 from Perkins, and $200 of the institutional scholarship were also disbursed as cash to Robert.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, Rigby uses costs and amounts paid for the quarter. (Robert's Stafford was not disbursed by quarter, but in two equal installments instead. Even though a portion of this disbursement is intended for the second quarter, the total amount *received* must be used in the refund calculation.)

For a statutory pro rata calculation, Rigby may exclude an administrative fee up to $100 or 5% of the total institutional costs, because they charge such a fee up front and across the board. In the repayment calculation, total non-institutional costs are assessed at a flat 50%, because in this case the same rate applies to all the items.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Robert Harbin	2/22	OFFICIAL—3/28
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	10-week quarter	3/25

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	1200	✓		Personal/Living	750
✓		Administrative Fee	60			Dependent Care	
	✓	Room & Board	1000			Disability Costs	
	✓	Books & Supplies	205			Miscellaneous	
	✓	Transportation	250			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 1260 (A)

TOTAL Noninst. Costs: 2205 (B)

3. Payments/Disbursements

(Exclude work-study awards)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Student	300	
	Stafford	960	121
	Pell		650
	FSEOG		384
	Perkins		283
	Inst. Aid		200

TOTAL Aid Paid To Inst. Costs: 960 (C)

TOTAL Paid To Inst. Costs: 1260 (D)

TOTAL Aid Paid as Cash: 1638 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = 5/10
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) .....
- Documented Cost of Unreturnable Equipment + 60
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

60

1260 (A) − 60 = Pro Rata/Federal Refund Institutional Costs: 1200 (A1)

Total Institutional Costs − Total Excludable Inst. Costs

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PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	1260	Total Institutional Costs (from Withdrawal Record) (A)
−	960	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)
=	300	**Student's Scheduled Cash Payment (SCP)**
−	300	Student's Cash Paid (from Withdrawal Record)
=	0	**UNPAID CHARGES**

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	1200	Pro Rata Institutional Costs (from Withdrawal Record) (A1)
X	50%	% to be Refunded (from the Portion That Remains)
=	600	**Initial Refund Amount**
−	0	Unpaid Charges (from Step One)
=	600	**ACTUAL REFUND TO BE DISTRIBUTED**

If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 600

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan 600	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board		X	=
Books & Supplies		X	=
Transportation		X	=
Personal/Living/Misc.		X	=
TOTAL COSTS (B)	2205	X 50% =	1103 TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	1638	Total Aid Paid as Cash (from Withdrawal Record) (E)
−	121	Cash Paid from FFEL/Direct Funds*
=	1517	TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	1517	Total Cash Paid to Student (from Step Two)
−	1103	Total Costs Incurred (from Step One)
=	414	REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is less than $100, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT	414
1. Federal Perkins Loan	283
2. Federal Pell Grant	131
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

Agreements Between Schools

Two or more institutions may enter into a consortium or contractual agreement so that a student can continue to receive SFA funds while studying at a school or organization other than his or her "home" institution. (The home school is the one that will grant the student's degree or certificate.) The specific requirements for such agreements are discussed below.

Under a consortium or contractual agreement (including those for study abroad programs), the home school must give credit for the courses taken at the other school(s) on the same basis (in terms of instructional time) as if it provided that portion itself. The underlying assumption of the agreement is that the home school has found the other school's or organization's academic standards to be equivalent to its own, and a completely acceptable substitution for its own instruction.

However, a home school may decline to give credit for courses in which a student earns a grade of "D" at the other school. Although a home school has a policy of accepting grades of "D" or above earned at the home school, it does not have to accept credits earned for courses at the other school for which a student earns a "D."

Grades received through either a consortium or contractual agreement do not have to be included in the calculation of the student's grade point average (GPA).

CONSORTIUM AGREEMENT

A consortium agreement, which can exist between eligible schools only, can apply to all the SFA Programs. Under such a written agreement, students may take courses at a school other than the "home" institution (the school where the student expects to receive a degree or certificate) and have those courses count toward the degree or certificate at the home school.

Elements of a consortium agreement

There is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, certain information should be included in all agreements, such as which school will grant the degree or certificate, what the student's tuition, fees, and room and board costs are at each school, and what the student's enrollment status will be at each school. The agreement should also specify which school will be responsible for disbursing aid and monitoring student eligibility and should include the procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and distributing SFA refunds. Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student's eligibility and make payments. The school paying the student must return SFA funds if required (for example, in refund or overpayment situations). For details on how agreements affect Federal Pell Grant calculations, see Chapter 4.

Effective date of the agreement

The agreement becomes effective for the payment period in which it is signed; however, it can be retroactive to a previous payment period if the payment period is in the same award year. Thus, if an agreement is signed in the middle of the spring semester, the student can be paid for the entire award year, including the preceding fall semester.

CONTRACTUAL AGREEMENT

A contractual agreement is between eligible and ineligible schools[1] or organizations, as defined in Section 1 of this chapter. Under such an agreement, the ineligible school or organization provides, under written contract, a portion of the eligible school's educational program.

Portion of program provided by ineligible school

There is a limit on the portion of the program that can be given at the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school's accrediting agency or state agency (in the case of a public postsecondary vocational institution) must determine *and confirm in writing* that the agreement meets its standards for contracting out education services.

Home school maintains all records

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and delivery functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all records necessary to document student eligibility and receipt of aid. (See Section 7 of this chapter for record requirements.)

Examples of contractual agreements

"Contracted portion of an educational program" covers situations ranging from a "junior year abroad" program to a portion of a cosmetology program given by an ineligible cosmetology school under contract with an eligible community college or vocational-technical school. In the traditional academic community, a baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign institution under the junior year abroad concept. At schools that predominantly grant associate degrees, eligible programs are not jeopardized if students spend no more than one semester or one quarter studying under contract at an ineligible school. (Of course, students may exceed these limits and take up to 50% of the program at a separately owned school if the school's accrediting agency has approved the contractual agreement.)

[1]An eligible school may not contract with an ineligible school that has been terminated from SFA participation or has withdrawn from SFA participation while under a termination, show-cause, suspension, or similar type proceeding by a state licensing agency, accrediting agency, guaranty agency, or the Department.

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

Students usually participate in study abroad or domestic exchange programs in one of two ways:

- ◊ by paying tuition and fees directly to the school the student is temporarily attending (for example, through an out-of-state tuition waiver system), or
- ◊ by paying tuition and fees at the home school, while taking courses at another school.

Study abroad students are SFA-eligible

Some students have had problems receiving SFA Program funds for study abroad or domestic exchange programs, because neither the student's home school nor the school the student is temporarily attending considers the student enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

The law states that a student participating in a study abroad program is eligible for SFA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as the student is an eligible regular student enrolled in an eligible program at the home school. The study abroad program must be part of a written contractual agreement between the two schools, and the program must be accepted for credit by the home institution. (The program does not have be required for the eligible program in which the student is enrolled at the home institution for it to be accepted for credit.) The law also includes this item in the Program Participation Agreement.

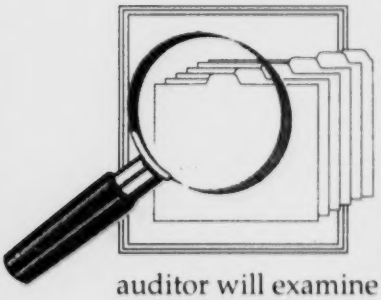
section 6 Program Reviews and Audits

The Department uses several methods to ensure that schools, lenders, and guaranty agencies are using correct procedures to award, disburse, and account for the use of federal funds. In this section we will discuss audits and program reviews that are conducted at schools that participate in the SFA Programs, as well as other quality control measures.

If in a program review or audit a school is identified as having disbursed improperly SFA funds, the school must restore those funds as appropriate. Program reviews and audits are not conducted solely to recover funds, but also to identify procedural problems at the school and recommend solutions. Several other ways for a school to obtain technical assistance are discussed at the end of the section.

If a school is cited for fraud or other serious program abuses in a program review or audit, the school may be subject to corrective action and/or sanctions, such as fines, emergency action, or limitation, suspension, or termination (see Section 9).

AUDIT REQUIREMENTS FOR SCHOOLS



The law requires that a school that participates in any SFA Program, including participating foreign schools, must have an independent auditor conduct, at least once a year, an audit of a school's compliance with the laws and regulations that are applicable to the SFA Programs, and an audit of the school's financial statements. A compliance audit covers the school's administration of the SFA Programs. The auditor will examine whether the school is complying with the laws and regulations that are applicable to the SFA Programs. A financial audit provides the Department with information necessary to evaluate a school's financial responsibility (see Section 2.)

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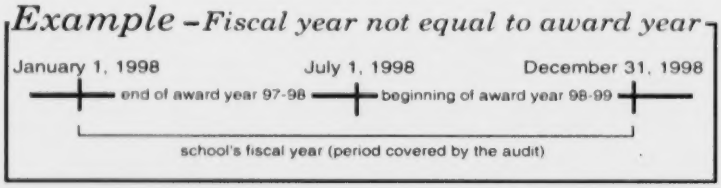
As in the past, schools can meet these audit requirements by having an audit performed under the guidelines of the Department's SFA Audit Guide, *Compliance Audits, Attestation Engagements of Federal Student Financial Assistance Programs at Participating Institutions* or, if applicable, by having an audit performed under the guidelines of the Single Audit Act (known as A-133 audits). Single Audit Act audits are discussed later in this section.

Combined audit submission

A school that has an audit performed under the SFA Audit Guide must submit simultaneously both the compliance and financial audit within six months of the end of the school's fiscal year. Both the compliance audit and the financial statement audit must be performed on a fiscal year basis. In addition, both audits must be prepared in accordance with Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statement audit may be performed by different auditors. However, both audits must be submitted as one package and must cover the school's fiscal year.

The compliance audit of a school that has a fiscal year that does not coincide with an award year will cover parts of two award years (see the example below).

Example – Fiscal year not equal to award year


January 1, 1998
July 1, 1998
December 31, 1998
end of award year 97-98
beginning of award year 98-99
school's fiscal year (period covered by the audit)

The definition of independent auditor makes clear that the compliance and financial audit submitted under these regulations must be performed by independent certified public accountants (CPAs) or by government auditors that meet certain governmental standards.

Definition of independent auditor

Independent auditor—An independent CPA or a government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence.

Audits by Inspector General

The Office of Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA Programs. A federal audit such as this does not satisfy the requirement that a school have an annual compliance and financial audit.

TYPES OF AUDIT GUIDELINES

Single Audit Act

As mentioned previously, in addition to audits performed under the SFA Audit Guide, audits performed under the guidelines of the Single Audit Act (chapter 75 of Title 31, U.S.C.) will also meet the Department's audit requirements. Under the Single Audit Act, certain types of schools must have an audit performed in accordance with a circular prepared by the Office of Management and Budget (OMB).

Previously, OMB Circular A-128 applied to public schools that are state entities and OMB Circular A-133 applied only to nonprofit postsecondary schools. The Single Audit Act Amendment of 1996 substantially revised various provisions of the 1984 Act. On June 30, 1997, the Office of Management and Budget (OMB) published in the *Federal Register* revisions to OMB Circular A-133 to implement the 1996 Amendments, including extending OMB Circular A-133's coverage to States, local governments, and Indian tribal governments, and rescinding OMB Circular A-128. Circular A-133 is re-titled *Audits of States, Local Governments, and Non-Profit Organizations*. For many schools, this is a combined audit of all the federal programs at that school. OMB circular A-133 is available through the OMB Home Page at http://www1.whitehouse.gov/WH/EOP/OMB/html/circulars/a133/a133.html, or by calling OMB's Publication Office at (202) 395-7332.

Audits performed under the Single Audit Act have distinct auditing and submission requirements. A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

Audit options depend on control

The type of audit a school or servicer may have depends on its method of control: public, for profit, or nonprofit. All for-profit schools must comply with the audit requirement by having an SFA compliance audit under the criteria of the Department's SFA Audit Guide. All public and nonprofit schools must comply with OMB Circular A-133, which allows an SFA compliance audit under the criteria of the Department's Audit Guide under limited circumstances.

AUDIT SUBMISSION DATES

As mentioned earlier, beginning with the 1997-98 award year, a school's or servicer's annual compliance and financial audit performed under the SFA Audit Guide must be based upon the *fiscal year* and submitted to the Department within *six months* after the end of the school's or servicer's *fiscal year*. (As discussed previously, these requirements do not apply to audits performed under the Single Audit Act, which are already based on a school's fiscal year. Single Audit Act audits are due as specified in OMB Circular A-133.)

Audit submission deadlines for SFA Audits

This requirement is effective for audits submitted on or after July 1, 1997. Because the period of time being audited for a compliance audit has changed to the fiscal year, a school's first combined submission may need to include an additional partial year report as part of its compliance audit. For example, for a school with a fiscal year end of December 31, the first combined submission (due June 30, 1998) must include a financial audit covering January 1, 1997 to December 31, 1997 (the school's fiscal year), and a compliance audit with two reports: one for the period July 1, 1996 to December 31, 1996, and another for the period January 1, 1997 to December 31, 1997. The school's next combined submission, due June 30, 1999, must include both a financial and compliance audit for January 1, 1998 to December 31, 1998. The chart that follows lists audit due dates and what period the audit must cover for two fiscal years.

Audit submission due dates for 1998 and 1999

School's fiscal year end date	Both audits due	Financial audit Period audited	Compliance audit Period audited	School's fiscal year end date	Both audits due	Period audited (financial and compliance)
September 30, 1997	March 31, 1998	October 1, 1996 thru September 30, 1997	July 1, 1996 thru September 30, 1996 AND October 1, 1996 thru September 30, 1997	September 30, 1998	March 31, 1999	October 1, 1997 thru September 30, 1998
December 31, 1997	June 30, 1998	January 1, 1997 thru December 31, 1997	July 1, 1996 thru December 31, 1996 AND January 1, 1997 thru December 31, 1997	December 31, 1998	June 30, 1999	January 1, 1998 thru December 31, 1998
March 31, 1998	September 30, 1998	April 1, 1997 thru March 31, 1998	April 1, 1997 thru March 31, 1998	March 31, 1999	September 30, 1999	April 1, 1998 thru March 31, 1999
June 30, 1998	December 31, 1998	July 1, 1997 thru June 30, 1998	July 1, 1997 thru June 30, 1998	June 30, 1999	December 31, 1999	July 1, 1998 thru June 30, 1999

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the SFA Programs. Each subsequent audit must cover the period since the preceding audit that is accepted by the Department.

COMPLIANCE AUDIT SUBMISSION REQUIREMENTS

The compliance audit must be conducted in accordance with

- the general standards and the standards for compliance audits contained in the U.S. General Accounting Office's (GAO's) Government Auditing Standards, and
- applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a school or servicer and its auditor should use the Department of Education's latest SFA Audit Guide, the accounting and recordkeeping manual for the SFA Programs (known as *The Blue Book)*, and the *ED Payment System Users Manual* or *GAPS Users Guide*, as applicable.

The Blue Book is developed under contract with the Office of Student Financial Assistance. The full title is *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Schools for Federally-Funded Student Financial Aid Programs*. Schools may request copies of the Department's *Audit Guide* and *The Blue Book* by writing to: Federal Student Information Center, P.O. Box 84, Washington, DC 20044.

The auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of SFA Program funds. The criteria for independence are given in Chapter IV Section B of the GAO *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.* The most important sections of the *Standards* are published as Appendices B and C of the December 31, 1980 Student Assistance General Provisions regulations. An audit conducted by a state auditor will also satisfy the nonfederal audit requirement.

Access to audit results

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

FINANCIAL STATEMENT SUBMISSION REQUIREMENTS

Additional information

A school's audited financial statement must cover the school's most recently completed fiscal year. The Department uses the information in a school's audited financial statement to evaluate the school's financial responsibility (see Section 2). In addition to a school's financial statements, the Department may request that the school submit additional information. For example, the Department may require a school to submit or provide access to the accountant's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the

Department can require a school to submit an audited financial statement more frequently than once a year.

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, or in audit guides from the Department's Office of the Inspector General, as applicable.

Consolidated statements

In some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements of the school and the entity, such as: audited consolidated financial statements; audited full consolidating financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statement a detailed description of related entities based on the definition of a related entity in the Statement of Financial Accounting Standards (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to identify readily the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

Reporting for 85/15 Rule

A proprietary school must disclose the percentage of its revenues derived from the SFA Programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statement. This is a change in the way a school is required to provide the information necessary to assess compliance with the 85/15 Rule. Previously, a proprietary school was required to have the CPA who prepared the audited financial statement report on the accuracy of the school's determination by performing an examination level attestation engagement. Information regarding the calculation of this percentage is found in Section 1.

AUDITS FOR FOREIGN SCHOOLS

Foreign schools must also submit annual compliance and financial audits. However, because financial responsibility requirements vary for foreign schools based on the amount of SFA Program funds received by the school, the requirements for preparation of the financial statement also vary. A school that received less than $500,000 (in U.S. dollars) in SFA Program funds during its most recently completed fiscal year may have its

audited financial statement prepared according to the standards of the school's home country. A foreign school that received $500,000 or more in SFA Program funds during its most recently completed fiscal year must have its audited financial statement translated and presented for analysis under U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS). See Section 2 for more information on financial responsibility determinations for foreign schools.

AUDITS FOR THIRD-PARTY SERVICERS

Exceptions for some servicers

There are also annual financial and compliance audit requirements for third-party servicers. A third-party servicer must submit an annual compliance audit. However, if a servicer contracts with only one SFA school, and that school's own audit sufficiently covers all the functions performed by the servicer, the servicer does not have to submit a compliance audit. If a servicer contracts with several SFA schools, a single compliance audit can be performed that covers all its administrative services for each school. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually an audited financial statement. This financial statement must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

Guidance for audits of third-party servicers is found in the Lender-Servicer Audit Guide, published in December 1996 and in the July 1997 revisions to the SFA Audit Guide.

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. See Section 2 for more information on third-party servicers.

HAVING THE AUDIT PERFORMED

Scope of the audit

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in Section 7.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

Exit interview

At the end of the on-site review, the auditor will hold an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

SFA Audit report

The final report will be prepared by the auditor and submitted to the school or servicer. The school or servicer must submit five copies of the SFA Audit Guide audit report and the school's or servicer's Correction Action Plan (CAP) to the Department's Data Management and Analysis Division at the following address:

U.S. Department of Education
Office of Postsecondary Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
600 Independence Avenue, SW
ROB 3, Room 3012
Washington, DC 20202-5402

A-133 audits

A-133 audits must be submitted to the

Federal Audit Clearinghouse
Bureau of the Census
P.O. Box 5000
Jeffersonville, Indiana 47199-5000

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The Federal Audit Clearinghouse will process these audits for the Department. Although the OIG is not the submission point for these audits, the OIG will provide technical assistance on these audits to schools and auditors.

For an audit performed under the Department's SFA Audit Guide, the Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. The school or servicer must repay any improperly spent funds within 45 days, unless the school or servicer has properly appealed the decision.

Access to records

Once the audit is complete, the school or servicer must give the Department and the OIG access to any records or other documents necessary to review the audit. A school that uses a third-party servicer must also give the Department and the OIG access to records or other documents necessary to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will also give the Department and the OIG access to the records and documents related to the audit, including work papers. In all cases, access to records includes the ability of the Department or OIG to make copies of the records.

Full cooperation is required for all examination actions

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency. Cooperation includes timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

Access—Includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in schools' SFA administration. A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the SFA Programs. For example, the program review team will examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Federal Perkins Loans, time sheets and pay rates for the Federal Work-Study (FWS) Program, and documents related to the reporting process for the Federal Pell Grant and campus-based programs.

Written report

The program review team prepares a written report that will be sent to the school within approximately 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved, the Department official will send a copy of the final program review determination to the school.

It may occasionally be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information regarding the review findings. **The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review. School officials will be informed if an emergency action is to be taken.**

Emergency action

Emergency Action—upon the recommendation of the case management team performing the program review, the Department may withhold SFA Program funds from the school or its students, and/or withdraw the school's authority to obligate or disburse SFA funds.

GUARANTY AGENCY REVIEWS

The FFEL Program regulations also require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews at the 10 schools with the highest loan volume through that agency, as well as at any school whose loan volume is 2% or more of the guaranty agency's total loan volume. A guaranty agency is also required to conduct biennial program reviews of schools in its state that have a default rate over 40%, and any school with a default rate over 20% if the Department notifies the agency that the school does not have a default reduction plan. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as

Focus of guaranty agency review

- ◊ certification of the loan application,
- ◊ maintenance of records supporting the student's loan eligibility,
- ◊ processing procedures and payment of loan monies, and
- ◊ prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

Only final determinations may be appealed

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a "FINAL AUDIT DETERMINATION LETTER" (FAD) and explains the appeals procedures. For a program review, the final determination letter is marked "FINAL PROGRAM REVIEW DETERMINATION LETTER."

Review by impartial hearing official

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Departmental official identified in the determination within 45 days after it receives the determination. If the school or servicer makes such a request, the determination will be reviewed by an impartial hearing official appointed by the Department. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a

copy of its submission at the same time. If the final decision is appealed by either party, the Secretary will review it.

Repayment of liability

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will collect the liability owed, if any. The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the Department grants an extension. At its option, the Department may elect to use an administrative offset to collect the funds owed.

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance Program (QAP), schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of SFA Programs and services. The emphasis of this program is on prevention or up-front correction and partnerships. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QAP schools are exempt from certain verification requirements because they develop a school-specific program based on data gathered in the cycle of QAP activities. Annual reporting requirements and periodic Quality Assurance site visits help ensure accountability and program integrity, and provide technical assistance. Schools that are interested in QAP participation should contact the Performance and Accountability Improvement Branch at the following address or phone number:

U.S. Department of Education/OPE/SFAP/IPOS
Performance and Accountability Improvement Branch
600 Independence Ave., SW
ROB-3, Room 3925
Washington, DC 20202-5232
(202)260-4788

Self assessment

If a school is interested in conducting a self assessment of its policies, procedures, and overall compliance with SFA requirements, it can use the "Comprehensive Management Assessments" instrument used in the QAP. This assessment is universally applicable, helping any school determine its strengths and weaknesses in the following areas: institutional participation, fiscal management, recipient eligibility, award calculation and disbursement, and reporting and reconciliation.

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Even if a school is not interested in participating in the QAP, it would benefit from this self-assessment exercise. This assessment was made available to all schools during the 1997-98 award year.

Consultants & peer review

A school can take other steps to improve its operating procedures, such as contracting with an independent consultant to review its financial aid office to ensure compliance with federal and state requirements, and to recommend improvements. Or, it might undertake a "peer review" by arranging for a financial aid administrator at another school to visit and review office procedures.

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the SFA Programs than the way required by statute or regulation, it may apply to be an "experimental site." Using the authority under section 487A(d) of the Higher Education Act, the Department has approved exemptions to a variety of SFA statutory and regulatory requirements. So far, over 130 schools have been designated as experimental sites.

Approved areas of experimentation

Ten areas of experimentation have been approved since the 1995-96 award year. They are

- ◊ entrance loan counseling,
- ◊ exit loan counseling,
- ◊ multiple disbursement for single term loans,
- ◊ thirty-day delay in loan disbursements for first-time, first-year borrowers,
- ◊ loan fees in cost of attendance,
- ◊ loan proration for graduating borrowers,
- ◊ crediting SFA funds to prior year charges,
- ◊ crediting SFA funds to institutional charges,
- ◊ overaward tolerance, and
- ◊ accelerated EDExpress processing.

The effective dates for the first nine experiments are July 1, 1995 to June 30, 2000. The effective dates for the accelerated EDExpress processing (a short-term experiment) were from March 1, 1996 to September 30, 1996.

How to apply

Schools may still apply to be experimental sites. Additional areas of experimentation are being reviewed continuously. The notice inviting applications appeared in the *Federal Register* on April 25, 1995.

If a school would like to apply to conduct experiments in other areas, they should send their proposals to

Experimental Sites Initiative
Student Financial Assistance Programs/IPOS/PAIB
U.S. Department of Education
600 Independence Avenue SW
ROB-3, Room 3925
Washington, DC 20202-5232

Information to be included in proposal

The proposal should include the following information:

- ◊ What problems experienced by the school, its students, or both does the proposal address?
- ◊ What is the school's proposed solution to the problem?
- ◊ From which specific statutory or regulatory requirements does the school seek relief in order to test its proposed solution?
- ◊ What performance measures or alternative actions does the school propose to use to fulfill the underlying purpose of the requirements from which relief is sought?
- ◊ For what period is the experiment proposed?
- ◊ When and how will the results of the experiment be reported to the Department?
- ◊ For an experiment proposed by a group of schools, how will the group monitor and aggregate the results of the experiment?

Review process

Applications are subject to a two-step review process. First, a screening is conducted looking at such areas as audits or default rates to determine if there are any outstanding problems with the school. Once the school clears all of the check points, a committee of Department staff is convened to recommend approval or disapproval of the proposal. The committee may choose to approve the proposal as is, with no significant changes, or it may take ideas from several similar proposals and blend them. For example, the committee may decide to develop common performance measures for all experiments in a particular area so that data collected for the experiment will be comparable.

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Notification

When a proposal is approved, the Department sends a letter to the applicant schools. The letter includes a brief one-page summary of the approved experiment. This summary specifies the statutory or regulatory requirements that are being waived, the performance measures for the experiment, the reporting requirements, and, in some cases, any additional requirements that the school must adhere to as a condition of the experiment.

After the letters are sent out, an amendment to the school's program participation agreement (PPA) is developed. The PPA amendment is based on the information in the initial letter.

Reporting requirements

The school is required to submit an annual report on the experiments in which it participates. The report generally requires a description of the results of the experiment, any corrective actions taken by the school, and specific information relating to each experiment.

Termination of experiments

Both the school and the Department may terminate the experiment at any time. If an experiment is terminated, the school must comply with all of the reporting requirements relating to the experiment for the period during which it was in effect. Beginning with the effective date of the termination, the school must comply with all statutory and regulatory requirements from which it was previously exempted.

Outcomes

The Department hopes that the results of these experiments will help in identifying unduly burdensome requirements that may be unnecessary for effective management of SFA Programs. The Department plans to use the information gathered through this initiative to revise existing regulations and to make recommendations to Congress for statutory changes.

The Experimental Sites Initiative will also encourage schools to develop alternative approaches to the current prescriptive requirements. By allowing flexibility in how entrance loan counseling is handled, for example, schools might develop methods that are less administratively burdensome, but more effective in providing loan information.

For further information

For further information on the experimental sites initiative, please call the Performance and Accountability Improvement Branch at 202-260-4788.

Section 7 Recordkeeping and Disclosure

The General Provisions regulations require schools to maintain records related to their participation in the SFA Programs. These records must be made available by the school to representatives of the Department and other specified individuals or organizations in the course of audits, program reviews, investigations, or other authorized reviews.

The Improving America's Schools Act of 1994 (Public Law 103-382) amended the General Education Provisions Act to require a school to keep records for three years rather than five years. Although institutional recordkeeping requirements for all SFA Programs have been consolidated into the General Provisions regulations, schools must also comply with all applicable program-specific recordkeeping requirements contained in the individual SFA Program regulations.

This section describes recordkeeping and disclosure requirements, including a discussion of the Family Educational Rights and Privacy Act (FERPA), which restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.

REQUIRED RECORDS

A school must keep comprehensive and accurate program and fiscal records related to its use of SFA funds. The importance of maintaining complete and accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school's eligibility for participation in the SFA Programs and show a clear "audit trail" for SFA Program expenditures. Records must be kept to demonstrate proper administration of SFA Program funds. For example, records for each SFA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

Program records

A school must establish and maintain on a current basis any application the school submitted for SFA Program funds. A school must also maintain on a current basis program records that document

- ◊ the school's eligibility to participate in the SFA Programs,
- ◊ the SFA eligibility of the school's programs,
- ◊ the school's administration of the SFA Programs,
- ◊ the school's financial responsibility,
- ◊ information included in any application for SFA Program funds, and
- ◊ the school's disbursement and delivery of SFA Program funds.

Program Records a School Must Maintain

The program records that a school must maintain include, but are not limited to

- ✔ Program Participation Agreement
- ✔ Accrediting and licensing agency reviews, approvals, and reports
- ✔ State agency reports
- ✔ Audit and program review reports
- ✔ Self-evaluation reports
- ✔ Other records, as specified in regulation, that pertain to factors of financial responsibility and standards of administrative capability

Fiscal records

A school must keep fiscal records to demonstrate its proper use of SFA funds. A school's fiscal records must provide a clear audit trail that shows that funds were received, managed, disbursed, and returned in accordance with federal requirements. Schools are required to account for the receipt and expenditure of all SFA Program funds in accordance with generally acceptable accounting principles.

A school must establish and maintain on a current basis

- ◊ financial records that reflect each SFA Program transaction, and
- ◊ general ledger control accounts and related subsidiary accounts that identify each SFA Program transaction, and separate those transactions from all other institutional financial activity.

Fiscal Records a School Must Maintain

The fiscal records that a school must maintain include, but are not limited to

- ✔ Records of all SFA Program transactions
- ✔ Bank statements for all accounts containing SFA funds
- ✔ Records of student accounts, including each student's institutional charges, cash payments, SFA payments, cash disbursements, refunds, and repayments required for each enrollment period
- ✔ General ledger (control accounts) and related subsidiary ledgers that identify each SFA Program transaction (SFA transactions must be separate from school's other financial transactions)
- ✔ Federal Work-Study payroll records
- ✔ Records that support data appearing on required reports, such as
  - Pell Grant Statements of Accounts
  - ED Payment Mangement System cash requests and quarterly or monthly reports
  - SFA Program reconciliation reports
  - Audit reports and school responses
  - State grant and scholarship award rosters and reports
  - Accrediting and licensing agency reports

In addition, a school must maintain the following records that pertain to the general administration of SFA Program funds.

General Records a School Must Maintain

A school must maintain records for each SFA recipient that include, but are not limited to

- ✔ The *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR) used to determine a student's eligibility for SFA funds
- ✔ Application data submitted to the Department, lender, or guaranty agency by the school on behalf of the student or parent
- ✔ Documentation of each student's or parent borrower's eligibility for SFA Program funds (e.g., records that demonstrate that the student has a high school diploma, GED, or the ability to benefit)
- ✔ Documentation of all professional judgement decisions
- ✔ Financial aid history information for transfer students
- ✔ Cost of attendance information
- ✔ Documentation of a student's satisfactory academic progress
- ✔ Documentation of a student's program of study and courses in which enrolled
- ✔ Data used to establish student's admission, enrollment status, and period of enrollment
- ✔ Required student certification statements and supporting documentation
- ✔ Documents used to verify applicant data
- ✔ Documentation relating to each student's or parent borrower's receipt of SFA Program funds, including but not limited to
  - The amount of the grant, loan, or FWS award; its payment period; its loan period, if appropriate; and the calculations used to determine the amount of grant, loan, or FWS award,
  - The date and amount of each disbursement or delivery of grant or loan funds, and the date and amount of each payment of FWS wages,
  - The amount, date, and basis of the school's calculation of any refunds or overpayments due to or on behalf of the student, and
  - The payment of any refund or overpayment to the SFA Program fund, a lender, or the Department, as appropriate.
- ✔ Documentation of and information collected at any initial or exit loan counseling required by applicable program regulations

In addition, a school must maintain records that include, but are not limited to

- ✔ Reports and forms used by the institution in its participation in an SFA Program, and any records needed to verify data that appear in those reports and forms
- ✔ Documentation supporting the school's calculation of its completion or graduation rates, and transfer-out rates (see Section 8)

In addition

- ◊ participants in the Perkins Loan Program must follow procedures in Section 674.19 for documentation of a repayment history for each borrower for that program (see Chapter 6),
- ◊ participants in the FWS Program must follow procedures established in Section 675.19 for documentation of work, earnings, and payroll transactions for that program (see Chapter 7), and

- ◊ participants in the FFEL Program must follow procedures established in Section 682.610 for documentation of additional loan record requirements for that program (see Chapter 10).

RECORD RETENTION PERIODS

Three-year requirement

The Improving America's Schools Act of 1994 amended the General Education Provisions Act to require a school to keep records for three years rather than five years. The minimum three year retention requirement was effective October 20, 1994. Final regulations published November 27, 1996 made conforming changes to the record retention requirements of the General Provisions regulations. The regulations were effective July 1, 1997.

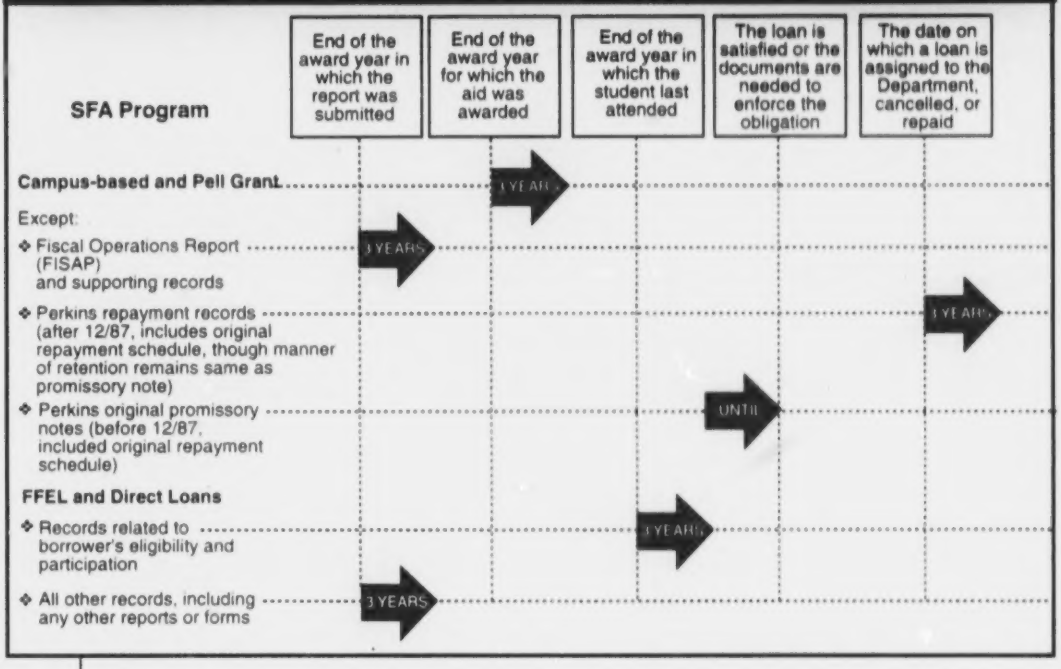
Schools must retain all required records for a minimum of three years. However, the starting point for the three-year period is not the same for all records. For example, some campus-based program records must be kept for three years from the end of the award year in which the funds were awarded and disbursed. However, schools must keep the Fiscal Operations Report (FISAP) and any records necessary to support its data for three years from the end of the award year in which the FISAP is submitted. The most current FISAP, which will contain 1997-98 data, must be submitted during the 1998-99 award year, will request 1999-2000 funds, and has a submission date of October 1998. Because this FISAP will be submitted during the 1998-99 award year, records must be kept until at least June 30, 2002, three years from the last day of the 1998-99 award year.

There are additional exceptions to the general record retention periods for repayment records for Perkins Loans and records related to a FFEL or Direct Loan borrower's eligibility and participation in those programs.

The chart on the next page illustrates the required minimum retention periods for records under the various SFA Programs. Note that the chart has been modified to clarify the retention requirements for Perkins repayment records and Perkins promissory notes, depending on whether the Perkins loan was issued before December 1987 or after December 1987 (when the repayment schedule was no longer formally part of the note).

CLARIFICATION

Minimum Record Retention Periods


SFA Program
End of the award year in which the report was submitted
End of the award year for which the aid was awarded
End of the award year in which the student last attended
The loan is satisfied or the documents are needed to enforce the obligation
The date on which a loan is assigned to the Department, cancelled, or repaid
Campus-based and Pell Grant
3 YEARS
Except:
❖ Fiscal Operations Report (FISAP) and supporting records
3 YEARS
❖ Perkins repayment records (after 12/87, includes original repayment schedule, though manner of retention remains same as promissory note)
3 YEARS
❖ Perkins original promissory notes (before 12/87, included original repayment schedule)
UNTIL
FFEL and Direct Loans
❖ Records related to borrower's eligibility and participation
3 YEARS
❖ All other records, including any other reports or forms
3 YEARS

Different retention periods are necessary to ensure enforcement and repayment of SFA loans. Perkins Loan repayment records, including cancellation and deferment records, must be kept for three years from the date on which the loan was assigned to the Department, cancelled, or repaid. Perkins original promissory notes and original repayment schedules must be kept until the loan is satisfied or needed to enforce the obligation (for more information, see Chapter 6). Records relating to a borrower's eligibility and participation in the FFEL and Direct Loan programs must be kept for three years from the last day of the award year in which the student last attended the school.

A school may retain records longer than the minimum period required. If the school does maintain the records for a longer period of time and receives a financial aid transcript request (see Chapter 2), the school is required to provide any information requested from records the school still maintains.

Retention period may be longer than 3 years

A school may be required to retain records for longer than three years if the records are involved in any loan, claim, or expenditure questioned in any SFA program review, audit, investigation, or other review (see Section 6 for more information on program reviews and audits). If the three-year retention period expires before the issue in question is resolved, the school must continue to retain all records until resolution is reached.

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in

Acceptable formats

- ◊ hard copy
- ◊ microform
- ◊ computer file
- ◊ optical disk
- ◊ CD-ROM
- ◊ other media formats

Regardless of the format used to keep a record, all record information (except for the *Institutional Student Information Record* [ISIR]) must be retrievable in a coherent hard copy format (for example, an easily understandable print out of a computer file) or in a media format acceptable to the Department. The requirement providing for other media formats acceptable to the Department allows for the use of new technology as it is developed. The Department will notify schools of acceptable media formats; schools should not apply for approval of a media format.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format. This includes tax returns, verification statements, SARs used to determine eligibility and any other document when a signature seal, etc., contained on it is necessary for the document to be used for the purposes for which it is being retained.

A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Special requirements for SARs & ISIRs

Special maintenance and availability requirements apply for *Student Aid Reports* (SARs) and ISIRs used to determine eligibility because it is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes. Because the SAR is a hard copy document, it must be maintained and available in its original hard copy format or in an imaged media format. The ISIR, an electronic record, must be maintained and available in its original format, i.e., as it was supplied by the Department to the school on a magnetic tape or cartridge, or as it was archived using EDExpress software supplied to the school. A school that uses EDExpress has the ability to maintain the ISIR data that it has maintained during the applicable award year by archiving the data to a disk or other computer

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format. A school that receives ISIRs on magnetic tapes or cartridges may make a copy of the file received from the Department.

A school is not required to maintain all required records in its financial aid office. For example, it may be more appropriate for a school to maintain some records in the business office, the admissions office, or the office of the registrar. The responsible administrator in the office maintaining the records should be aware of all applicable record retention requirements.

If a school closes, stops providing educational programs, is terminated or suspended from the SFA Programs, or undergoes a change in ownership that results in a change of control, it must provide for the retention of required records. It must also provide for access to those records for inspection and copying by the Department. For a school that participates in the FFEL Program, the school must also provide access for the appropriate guaranty agency.

EXAMINATION OF RECORDS

Location

A school must make its records available to the Department at an institutional location designated by the Department. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits any SFA funds. These regulatory requirements reflect longstanding Department policy.

Cooperation with agency representatives

A school that participates in any SFA Program, and the school's third party servicers, if any, must cooperate with the agencies and individuals involved in conducting any audit, program review, investigation, or other review authorized by law. This cooperation must be extended to the following individuals and their authorized representatives: an independent auditor, the Secretary of the Department, the Department's Inspector General, the Comptroller General of the United States. A school must also provide this cooperation to any guaranty agency in whose program the school participates, and the school's accrediting agency.

Timely access

A school must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs, for examination and copying by any of the agents listed above. The records to which timely access must be provided include, but are not limited to, computerized records and records reflecting transactions with any financial institution with which the school or servicer deposits or has deposited any SFA Program funds.

Reasonable access to personnel

A school must also provide reasonable access to all personnel associated with the school's or servicer's administration of the SFA Programs so that any of the agents listed above may obtain relevant information.

A school or servicer has not provided reasonable access to personnel if the school or servicer

- ◊ refuses to allow those personnel to supply all relevant information,
- ◊ permits interviews with those personnel only if the school's or servicer's management is present, or
- ◊ permits interviews with those personnel only if the interviews are tape recorded by the school or servicer.

SFA recipient information

If requested by the Department, a school or servicer must provide promptly any information the school or servicer has respecting the last known address, full name, telephone number, enrollment information, employer, and employer address of a recipient of SFA Program funds who attends or attended the school. A school must also provide this information, upon request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.

DISCLOSING STUDENT INFORMATION

FERPA

To protect the privacy of students and families, federal law sets certain conditions on the disclosure of personal information from records kept by schools that participate in the SFA Programs. The relevant law is the Family Educational Rights and Privacy Act of 1974 (FERPA); do not confuse FERPA with the Privacy Act of 1974, which governs the records kept by government agencies, including the application records in the federal processing system.

FERPA restrictions on disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes) are discussed in Section 8.

Department regulations set limits on the disclosure of personally identifiable information from school records, define the responsibilities of the school, and define the rights of the student in reviewing the records and requesting a change to the records. A school must give the student the opportunity to inspect and review his or her educational records, but does not have to provide copies of the records unless the requirement that the student come to the school to inspect and review the records would effectively deny access to the student. While the school may not charge a

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fee for retrieving the records, it may charge a reasonable fee for providing *copies* of the records, provided that the fee would not prevent access to the records.

The box to the right notes several important elements of the school's responsibilities and the rights of the student or parent. The regulations apply to *all* education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

A school is required to —

- ***Develop a written policy*** listing the types and locations of education records maintained by the school, and stating the procedures for parents and students to review the records.
- ***Notify parents and students*** of their rights with respect to educational records.
- ***Document the student's file*** each time personally identifiable information is disclosed to persons other than the student.

A student has the right to —

- ***Inspect and review*** education records pertaining to the student.
- ***Request an amendment*** to the student's records.
- ***Request a hearing*** (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

The FERPA regulations also establish rules governing the disclosure of student information to parties other than the student. The regulation lists 13 conditions under which "personally identifiable information" from a student's education record may be disclosed without the student's prior written consent. Several of these conditions are of particular interest to the financial aid office:

◊ *Disclosure may be made to authorized representatives of the U.S. Department of Education, the Office of Inspector General, or state and local education authorities.* These officials may have access to education records as a part of an audit or program review, or to ensure compliance with SFA Program requirements.

(Representatives of the Department include research firms that are under contract with the Department to conduct studies of financial aid procedures, using student information provided by the schools selected for the study. The term also includes the SFAP public inquiry contractor.)

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- ◊ *Disclosure may be made if it is in connection with financial aid that the student has received or applied for.* For instance, the school may receive a request from the Immigration and Naturalization Service (INS) or the Federal Bureau of Investigation (FBI) for access to a student's records. Such a request may only be granted if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

- ◊ *Disclosure may be made to the student's parent, if the student is a dependent of the parent, as defined by the Internal Revenue Service (IRS).* If the student receives more than half of his or her support from the parent, under the IRS definition, the student is a dependent of the parent. (Note that the IRS definition is quite different from the rules governing dependency status for the SFA Programs.)

- ◊ *Disclosure may be made to organizations that are conducting studies concerning the administration of student aid programs on behalf of educational agencies or institutions.*

Disclosure requests for information

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

Sample disclosure statement

If student records are requested by Department reviewers in the course of a program review, for instance, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the SFA Programs conducted by a Department regional office: "These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4)."

Redisclosure to other authorized parties

When student information has been disclosed to one of the parties listed above, that party may redisclose that information to additional parties who are authorized to receive the information without prior written consent, provided that such redisclosure is included in the statement in the student's file. For instance, if a program review finds evidence that a student may have fraudulently obtained aid, this information may be redisclosed to the Department's Office of Inspector General (OIG) by the

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regional office. (Thus the OIG would not have to make a separate request to the school for the same information.) When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an SFA program review, the following statement might be added: "The Institutional Review Branch may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b)." You should check with the program review staff to find out if any redisclosure is anticipated.

As mentioned earlier, the financial aid office is usually not responsible for developing the school's FERPA policy. However, if you are involved in developing your school's policy and would like a copy of the Department's model policy for postsecondary schools, you may write to the following address:

Family Policy and Compliance Office
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-4605

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Student Consumer Information

This section provides information on the **basic requirements** for the consumer information that a school must provide students. These requirements stress the importance of providing students with reliable information regarding a school's academic programs, facilities, and financial aid programs.

In addition to the disclosure of information required under the basic consumer information requirements, there are four disclosure requirements with which schools must comply: **campus security**, **student-right-to-know** (data for the general student body and data related to the awarding of athletically related student aid), **equity in athletics**, and **program participation agreement (PPA) requirements for schools awarding athletically related student aid**. Also, schools that participate in the campus-based programs must comply with disclosure requirements for **drug and alcohol abuse prevention**. Although some of these disclosure requirements contain common elements, they are all required separately. (See the chart on the next page.) These disclosure requirements are discussed here.

In recent years, the increased number of defaulted federal student loans has led to renewed interest in providing students with information necessary to choose an appropriate academic program and to fully understand the responsibility of loan repayment. This section briefly addresses required loan counseling, but the loan counseling requirements are covered in detail in Chapters 6, 10, and in Direct Loan entrance and exit counseling guides.

This section also includes a summary of the effects of misrepresentation of institutional information on a school's SFA participation.

SCHOOL DISCLOSURE REQUIREMENTS

Student Right-to-Know and Campus Security Act of 1990

Campus Security Final Regulations published April 29, 1994; effective July 1, 1994; Technical Corrections published June 30, 1995. REQUIRES: Disclosure of data on crimes committed on campus and campus safety policies and procedures.

Student Right-to-Know Final Regulations published December 1, 1995; effective July 1, 1996. REQUIRES: Disclosure of graduation or completion rates and transfer-out rates for 1) the general population of full-time, first-time degree or certificate-seeking, undergraduate students, and 2) students who receive athletically-related student aid, broken down by race and gender within sports.

Equity in Athletics Disclosure Act of 1994

Final Regulations published November 29, 1995; effective July 1, 1996. REQUIRES: Disclosure of data on participation rates and financing of men's and women's sports in intercollegiate athletic programs at coeducational schools.

Requirements of Section 14 (Program Participation Agreement)

Final Regulations published April 29, 1994; effective July 1, 1994. REQUIRES: Data on revenues, total expenses, and operating expenses of intercollegiate athletic programs, audited within three years of disclosure.

BASIC CONSUMER INFORMATION REQUIREMENTS

Subpart D of the General Provisions lists basic information about the school and about financial aid that must be available to current and prospective students, usually through printed materials. If necessary, these materials must be prepared by the school. However, much of the required data will already be available in brochures and handouts routinely disseminated by the school, or in federal publications such as *The Student Guide*. The following minimum information must be provided:

Financial aid information

- ◊ what need-based and non-need-based federal financial aid is available to students;
- ◊ what need-based and non-need based state and local aid programs, school aid programs, and other private aid programs are available;
- ◊ how students apply for aid and how eligibility is determined;
- ◊ how the school distributes aid among students;
- ◊ the rights and responsibilities of students receiving aid;
- ◊ how and when financial aid will be disbursed;

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- ◊ the terms and conditions of any employment that is part of the financial aid package;
- ◊ the terms of, schedules for, and the necessity of loan repayment and required loan exit counseling;
- ◊ the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for federal financial aid;
- ◊ information on preventing drug and alcohol abuse;
- ◊ information regarding the availability of SFA funds for study abroad programs; and
- ◊ that a student may be eligible for SFA funds for attending a study abroad program that is approved for credit by the home school.

General information about the school

The school must provide the following minimum information about itself:

- ◊ the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval;
- ◊ special facilities and services available to disabled students;
- ◊ the costs of attending the school (tuition and fees, books and supplies, room and board and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest;
- ◊ the school's fair and equitable refund policy and the prescribed order of SFA refund distribution;
- ◊ the degree programs, training, and other education offered;
- ◊ the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent;
- ◊ the instructional, laboratory, and other physical plant facilities associated with the academic programs;
- ◊ a list of the faculty and other instructional personnel;

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- ◊ the satisfactory progress standards that must be maintained; and

- ◊ who to contact for information on student financial assistance and on general institutional issues.

Availability of financial aid personnel

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist current or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. A school should contact the Institutional Participation and Oversight Service (IPOS) for more information (see Section 10 for the general IPOS address).

JOB PLACEMENT RATES

Information to substantiate job placement claims

Schools that recruit students by using marketing claims regarding job placement must substantiate such claims. At or before the time of application, the school must provide to prospective students, the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate its claims. As discussed in Section 2, if the school advertises job placement rates to attract enrollment, it must inform prospective students of the state licensing requirements for the jobs for which the students seek training.

CAMPUS SECURITY

The Department of Education is committed to assisting schools in providing students with a safe environment in which to learn and to keep parents and students well informed about campus security. To this end "Dear President" letter ANN-96-5, issued jointly by the Department of Education, the Justice Department, and the Department of Health and Human Services in September 1996, provides suggestions to schools for use in developing and implementing a comprehensive policy to combat violence against women on campus. The letter lists the following web sites as possible resources:

- ◊ Department of Justice Violence Against Women Office: www.usdoj.gov/vawo/

- ◊ Department of Education World Wide Web site on campus safety: www.ed.gov/offices/ope/ppi/security.html

◊ Higher Education Center for Alcohol and Other Prevention
World Wide Web site: www.edc.org/hec/

The Department continues to be committed to the enforcement of the Campus Security Act of 1990, which requires a school to compile an annual campus security report.

"Dear Colleague" letter GEN-96-11, published May 1996, provides an overview of the campus security requirements, guidance to schools on how to receive technical assistance in administering the requirements, and the Department's enforcement policies.

Dear Colleague letter pending

In the future, the Department plans to publish a"Dear Colleague" letter that provides further guidance on campus security requirements. The letter had not been published at the time this Handbook went to print. When issued, this information will also be available on the SFA BBS.

Campus security report

By September 1 of each year, a school must publish and distribute the annual campus security report to all current students and employees directly by publications provided by hand delivery, or by mail (through the U.S. Postal Service, campus mail, or computer network). The report should be provided upon request to all prospective students and prospective employees (anyone who has contacted the school for the purpose of requesting information on employment with the school). Prospective students and prospective employees must be informed of the report's availability, must be given a summary of its contents, and must be given the opportunity to request a copy. A school is not required to submit its annual security report to the Department unless the Department specifically requests the submission.

Requirements applicable to each campus

The requirements regarding the campus security report must be met individually *for each separate campus*. (Any school, additional location, or administrative division that is not reasonably geographically contiguous with the main campus is considered a separate campus.)

Campus—includes (1) any building or property owned or controlled by the school within the same contiguous area and used by the school in direct support of or related to its educational purposes, (2) any building or property owned or controlled by student organizations recognized by the school, or (3) any building or property controlled by the school, but owned by a third party.

Timely warning required

In addition to the required annual campus security report, schools are required to provide timely warning to the campus community of any occurrences of the following crimes that are reported to **campus security authorities** or local police agencies and are considered to represent a continuing threat to students and/or employees:[1]

[1]Note that a school must also include statistical and policy information related to these same crimes in its campus security report (see page 3-172).

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- ◊ murder,
- ◊ forcible and nonforcible sex offenses,
- ◊ robbery,
- ◊ aggravated assault,
- ◊ burglary,
- ◊ motor vehicle theft, and
- ◊ crimes of murder, forcible rape, and aggravated assault that show evidence of prejudice based on race, religion, sexual orientation, ethnicity or disability as prescribed by the Hate Crimes Statistics Act (28 U.S.C. 534).

The Hate Crimes Statistics Act was amended by Public Law 105-155, the Church Arson Prevention Act of 1996, to include the category of "disabled" as victims of hate crimes

A campus security authority is (1) a campus law enforcement unit. (2) an individual or organization specified in a school's campus security statement as the individual or organization to whom students and employees should report criminal offenses. (3) an official of a school who has significant responsibility for student and campus activities, but does not have significant counseling responsibilities.

Note that campus officials with significant counseling responsibility are not subject to the timely warning requirement. This permits the official to provide confidential assistance to a crime victim without the competing obligation to provide an immediate report of criminal activity to the campus community. This exception does not apply to statistical reporting of crimes that occur on campus. All officials with significant responsibility for campus and student activities are required to provide information for preparation of the annual statistics.

The timely warning information is to be provided in an appropriate manner so as to prevent similar crimes from occurring and to protect the personal safety of students and employees. Schools should work closely with local law enforcement officials in determining the necessary and appropriate distribution of such information to the campus community.

FERPA

The provisions of the Family Educational Rights and Privacy Act (FERPA) do not prohibit a school from complying with the requirements of the campus security regulations. Although information on reported crimes could be included in records that are protected under FERPA, FERPA does not prohibit the disclosure of statistical, non-personally identifiable information. FERPA does not preclude a school's compliance with the

timely warning requirement because FERPA recognizes that, in an emergency, information can be released without consent when needed to protect the health and safety of others. In making a timely warning report to the campus community on criminal activity that affects the safety of others, even if the school discloses the identity of an individual, the school has not violated the requirements of FERPA.

Records created and maintained by a campus law enforcement unit are not education records and are not protected from disclosure by FERPA. Records of a school's disciplinary actions or proceedings against a student are not available to the public without the consent of the student or the student's parent (if applicable). However, this law does not prevent a school from releasing records of its law enforcement unit to the public without the consent of the student or the student's parent (if applicable).

Disciplinary action or proceeding

The investigation, adjudication, or imposition of sanctions by an educational agency or institution with respect to an infraction or violation of the internal rules of conduct applicable to students of the agency or institution.

Law enforcement unit

Any individual, office, department, division, or other component of an educational agency or institution, such as a unit of commissioned police officers or noncommissioned security guards, that is officially authorized or designated by that agency or institution to

- enforce any local, state, or federal law, or refer to appropriate authorities a matter for enforcement of any local, state, or federal law against any individual or organization other than the agency or institution itself, or
- maintain the physical security and safety of the agency or institution.

Under the law, a school is permitted to disclose the results of disciplinary proceedings to the alleged victim of a crime of violence (as defined in the United States Code). However, disclosure may not be made to the public without the consent of the student or parent (if applicable).

Campus security report

A school is not relieved of compliance with the reporting requirements of the campus security regulations when the school refers a matter to a disciplinary committee, rather than to the school's law enforcement unit or directly to the local authorities.

Policies & procedures for reporting crimes

The campus security report provides information regarding campus security policies and campus crime statistics. With limited exceptions, the campus security requirements do not prescribe policies and procedures for schools to follow. Rather, schools are required to make disclosures concerning the policies and procedures implemented by the school. At a minimum, the campus security report must include the following:

◊ a statement (including a list of the titles of each person or organization to whom students and employees should report the crimes) of the procedures and facilities for reporting crimes and other emergencies occurring on campus, and the policies

for the school's response to such reports, including policies for making timely reports of the following crimes that are reported to campus officials or local police agencies to members of the campus community:

- murder,
- forcible and nonforcible sex offenses,
- robbery,
- aggravated assault,
- burglary,
- motor vehicle theft, and
- crimes of murder, forcible rape, and aggravated assault that show evidence of prejudice based on race, religion, sexual orientation, ethnicity or disability as prescribed by the Hate Crimes Statistics Act (28 U.S.C. 534) (the Hate Crimes Statistics Act was amended by Public Law 105-155, the Church Arson Prevention Act of 1996, to include the category of "disabled" as victims of hate crimes),

Crime statistics

◊ statistics on the on-campus occurrence of the crimes listed above,

◊ a statement of the policies concerning the security of, and access to, all campus facilities, including residences, and security considerations used in the maintenance of campus facilities,

◊ a statement of the policies concerning campus law enforcement, including

- the enforcement authority of campus security personnel, their working relationship with state and local police and other law enforcement agencies, and whether the security personnel have the authority to arrest individuals, and
- policies that encourage accurate and prompt reporting of crimes to campus police and the appropriate police agencies,

◊ a description of the type and frequency of programs for students and employees on campus security procedures and practices; programs that encourage students and employees to

be responsible for their own security and the security of others, and crime prevention programs,

◊ a statement of the policies concerning the monitoring and recording (through local police agencies) of student criminal activity at off-campus locations of student organizations recognized by the school, including student organizations with off-campus housing facilities (see the definition of a "campus" on page 3-169),

◊ statistics concerning the number of arrests for on-campus violations of liquor laws, drug abuse, and weapons possession,

◊ the policies concerning the possession, use, and sale of alcoholic beverages—including the enforcement of state underage drinking laws, and the policies concerning the possession, use, and sale of illegal drugs—including the enforcement of state and federal drug laws,

◊ a description of the drug and alcohol-abuse education programs available to students and employees, as required under section 1213 of the Higher Education Act,

◊ a statement of the sexual assault prevention programs available and the procedures to be followed when a sex offense occurs including

- a description of educational programs to promote the awareness of rape, acquaintance rape, and other forcible and nonforcible sex offenses,
- procedures a student should follow if a sex offense occurs (who to contact and how to contact them, the importance of preserving evidence for proof of a criminal offense),
- options for the notification of local law enforcement officials (including on-campus and local police) and a statement that school personnel will assist the student in notifying these authorities, if requested by the student,
- availability of on- and off-campus counseling, mental health, or other student services for victims of sex offenses,
- notice to students that the school will change a victim's academic and living situations after the alleged sex offense and of the options for changes, if changes are requested by the victim and are reasonably available,

- procedures for campus disciplinary actions in cases of an alleged sex offense, including a clear statement that both the accuser and the accused

  Δ are entitled to the same opportunities to have others present during a disciplinary proceeding, and

  Δ will be informed of the school's final determination any school disciplinary proceeding with respect to the alleged sex offense and any sanction that is imposed against the accused,

- sanctions the school may impose following a final determination of a school disciplinary proceeding regarding rape, acquaintance rape, or other forcible or nonforcible sex offenses.

Reporting period

The annual security report due September 1, 1995, and each subsequent annual report thereafter, must contain the required crime statistics for the three calendar years preceding the year in which the report is disclosed. The security report due September 1, 1998 must include statistics for 1995, 1996, and 1997 calendar years. Statistics concerning the number of arrests for on-campus violations of liquor laws, drug abuse, and weapons possession must cover the most recently completed calendar year. The security report due September 1, 1998 must include statistics for these arrests for calendar year 1997.

All schools must compile the required crime statistics in accordance with the definitions used in the Federal Bureau of Investigation's Uniform Crime Reporting (UCR) System, which is provided in Appendix E of the final regulation published April 29, 1994. However, schools are not required to participate in the FBI's UCR program.

Complaints against schools

When a complaint is filed against a school alleging noncompliance with the campus security regulations, the Department will assess the complaint and determine the appropriate response. While schools are learning their new responsibilities under these requirements, the Department will provide technical assistance to correct violations. If a school flagrantly or intentionally violates the campus security regulations or fails to take corrective action, the Department will impose appropriate sanctions including, possibly, the assessment of fines, and for severe violations, the limitation, suspension, or termination of the school from SFA participation.

Technical assistance to schools in administering the campus security regulations is available from the Department's Customer Support Branch at 1-800-433-7327.

STUDENT RIGHT TO KNOW

The Student Right-to-Know Act requires schools to disclose information about graduation rates to current and prospective students and the public. A school participating in any SFA Program must disclose completion or graduation rates (both referred to here as completion rates), and transfer-out rates for the **general student body**. The regulations also require schools that participate in an SFA Program and offer **athletically related student aid** to provide information on completion rates, transfer-out rates, and other consumer information to potential student-athletes, their parents, high school coach, and guidance counselors.

For both general student body rates and rates related to athletically related student aid, schools must disclose information on completion rates and transfer-out rates on certificate- or degree-seeking, full-time undergraduate students who enter the school during the 1996-97 academic year. The definition of the cohort year was changed by an amendment to the Higher Education Act in the Emergency Supplemental Appropriations for the Department of Defense (Public Law 105-18), enacted June 12, 1997. This changed the year from July 1-June 30 to September 1- August 31. However, schools are not required to comply with this change if the cohort must be reported on prior to July 1, 1998.

Dear Colleague letter pending

In the future, the Department plans to publish a"Dear Colleague" letter that provides further guidance on Student Right-to-Know requirements. The letter had not been published at the time this Handbook went to print. When issued, this information will also be available on the SFA BBS.

Determining the cohort

To calculate completion and transfer-out rates, a school must identify a group of students each year (a cohort) that the school will monitor over time so that it may determine the percentage of those students who complete their programs or transfer out of the school. The same "snapshot" approach is used to determine rates for both the general student body and those rates related to athletically related student aid. The regulations specify the cohort a school must use based on how the school offers most of its programs.

Standard term schools

A school that offers most of its programs based on standard terms (semesters, trimesters, quarters) must use a **fall cohort** of first-time freshmen for these calculations. That is, the school must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school during the fall term. For a fall cohort, a student has "entered" the school if he or she enrolled for the fall term (or during the summer immediately preceding the fall term) and is still enrolled as of October 15 or the end of the school's drop-add period for the fall term.

Nonstandard term or non-term schools

Due to the amendment to the Higher Education Act mentioned above, the cohort for nonstandard term and non-term schools changed to a September 1 to August 31 cohort (rather than a July 1 to June 30 cohort as originally required). Therefore, a school that does not offer most of its programs based on standard terms must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school between September 1 and August 31. For a cohort for nonstandard term and non-term schools, a student has "entered" the school if he or she has attended at least one class.

Schools may not include students who transfer into the school from another school as entering students for purposes of these calculations; however, a school may calculate a completion rate for students who transfer into the school as a separate, supplemental rate.

Definitions

The definitions of **certificate- or degree-seeking students**, **first-time freshman students**, and **undergraduate students** were adopted (with slight modifications to address the Student Right-to Know statute) from the National Center for Education Statistics (NCES) Integrated Postsecondary Education Data System (IPEDS) Graduation Rate Survey (GRS).

Certificate- or degree-seeking student—a student enrolled in a course for credit who is recognized by the school as seeking a degree or certificate.

First-time freshman student—an entering freshman who has never attended any institution of higher education. Includes a student enrolled in the fall term who attended a postsecondary institution for the first time in the prior summer term, and a student who entered with advanced standing (college credit earned before graduation from high school).

Undergraduate students —students enrolled in a 4- or 5-year bachelor's degree program, an associate's degree program, or a vocational or technical program below the baccalaureate level.

Schools must use the SFA definition of a **full-time student** that is found in the Student Assistance General Provisions regulations (see Chapter 2).

Waivers

The regulations provide for a waiver of completion rate and transfer-out rate calculations for the general student body and for athletic data to any school that is a member of an athletic association or conference that has voluntarily published (or will publish) completion or graduation data that the Department determines is substantially comparable to the data required by the regulations. However, unless otherwise specified, a waiver does not apply to the required disclosure of additional data related to athletically related student aid. In addition, schools are still required to comply with information dissemination requirements.

The NCAA received a waiver for its Division I schools for the July 1, 1997 athletically related student aid reporting submission. Under this waiver, NCAA Division I schools were covered by the data the NCAA submitted to the Department. This waiver also applied to the required disclosure of additional data related to athletically related student aid for Division I and Division II schools. Division I and Division II schools were still required to provide the information to prospective student-athletes and their parents, but the obligation of NCAA Division I schools to provide the information individually to coaches and counselors was covered by the graduate rate book mailed to each high school by the NCAA. The Department will notify the appropriate associations and conferences who receive waivers for their members for the July 1, 1998 reporting submission.

In addition to waivers, the Department will consider the protocols of other agencies as acceptable methodologies if those protocols meet the requirements of the regulations. Currently, the Department has approved the technical manual of the Joint Commission on Accountability Reporting (JCAR) (an arm of the Association of State Colleges and Universities) as containing a protocol that will generate information in compliance with the regulations. JCAR schools are still obligated to fulfill all regulatory requirements, including the requirement to calculate and provide graduation rate and transfer-out rate data on student-athletes. A school will still have to fulfill the dissemination requirements for the both general student body rates and rates related to athletically related student aid.

The Department will continue to work with any interested agencies to help them develop standards that meet these requirements. If in the future the Department determines that another agency's requirements meet the standards of the Student Right-to-Know Act, the Department will inform schools that those rates may be used to satisfy the Student Right-to-Know requirements.

In the future, the National Center for Education Statistics will be putting out a graduation rate survey (GRS). Information generated for NCES for the GRS may be used to fulfill the data requirements discussed here. The Department will notify schools and provide further information when this option is available.

Disclosure for the General Student Body

General student body

The requirements for disclosing information on the general student body have been broken down into three steps: determining the cohort, calculating the rates, and disclosing the rates.

Step 1 - Determining the cohort

Schools must determine the cohort as described on pages 3-175 to 3-176 to identify students in such a way that it can take a snapshot of those same students at a later time.

Step 2 - Calculating the rates

Once a school has identified a cohort, it must determine how many of those students completed their program and how many transferred out of their program at the point in time that 150 percent of the normal time for completion of each program has elapsed for all of the students in the cohort.

Definition of "normal time"

Normal time is the amount of time necessary for a student to complete all requirements for a degree or certificate according to the school's catalog. This is typically

- four years (eight semesters or trimesters, or 12 quarters, excluding summer terms) for a bachelor's degree in a standard term-based school,
- two years (four semesters or trimesters, or six quarters, excluding summer terms) for an associate degree in a standard term-based school, and
- the various scheduled times for certificate programs.

Completion rate

The following formula is used to calculate a completion rate for the general student body:

$$\frac{\text{Number of students in cohort who completed their program within 150\% of normal time for completion}}{\text{Number of students in cohort (minus permitted exclusions)}}$$

Definition of a "completor"

A student is counted as a **completor** if

- the student completed his or her program within 150 percent of the normal time for completion from their program, or
- the student has completed a transfer preparatory program within 150 percent of the normal time for completion from that program.

Transfer preparatory program—At least a two-year program that is acceptable for full credit toward a bachelor's degree and qualifies a student for admission into the third year of a bachelor's degree program.

Excluded from cohort

A school may exclude from the cohort students who

- have left school to serve in the armed forces,
- have left school to serve on official church missions,
- have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- are deceased, or have become totally and permanently disabled.

The following formula is used to calculate a transfer-out rate for the general student body:

Transfer-out rate

$$\frac{\text{Number of students in cohort who transferred out of their program within 150\% of normal time for completion}}{\text{Number of students in cohort (minus permitted exclusions)}}$$

Definition of a transfer-out student

A student is counted as a **transfer-out student** if, within 150 percent of the normal time for completion of their program, the student has transferred out of the program and enrolled in any program of another eligible institution for which the prior program provides substantial preparation. A school is required to report only on those students that the school knows have transferred to another school.

Documentation of a transfer

In addition, to be counted as a transfer-out student, a school must document that the student actually transferred. Acceptable documentation is

- a certification letter or electronic certification from the school to which the student transferred stating that the student is enrolled in that school,
- confirmation of enrollment data from a legally-authorized statewide or regional tracking system (or shared information from those systems) confirming that the student has enrolled in another school,
- institutional data exchange information confirming that a student has enrolled in another school, or
- an equivalent level of documentation.

Excluded from cohort

As in the calculation of its completion rate, a school may exclude from the cohort students who

- ◊ have left school to serve in the armed forces,
- ◊ have left school to serve on official church missions,
- ◊ have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- ◊ are deceased, or have become totally and permanently disabled.

Step 3 - Disclosing the rates

This information must be disclosed by the January 1 immediately following the expiration of 150% of normal time for the group of students on which the school bases its completion and transfer-out rate calculation. However, for some programs measured in months, 150% of normal time may expire after August 31 but prior to January 1. If this occurs, the disclosure date is the *second* January 1 after that date. For example, if 150% of normal time expires on September 15, 1998, disclosure is required by January 1, 2000. Note that for all traditional term-based schools, the last term comprising 150% of normal time is always considered to end no later than August 31.

Schools must disseminate the information on completion and transfer-out rates to all enrolled students, and to prospective students upon request, through appropriate publications and mailings (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request.

EXAMPLE-Determination of Completion and Transfer-out Rates for the General Student Body

Step 1 - Determining the Cohort

Tower of London College (TLC) has both two-year and four-year degree programs. It operates on a semester basis, so it used a fall cohort.

During its fall semester, TLC had enrolled 1,000 full-time first year freshmen in degree programs. It tagged those students as its 1996 cohort.

Step 2 - Calculating the rates

One hundred and fifty percent of normal time for completion of the two-year program elapsed on August 31, 1999. In September of 2002 (after the

150% of normal time for completion of the four-year program elapsed), TLC searched its records to see how many of the 1,000 students in the cohort had completed a two-year degree as of August 31, 1999. It found that 250 students had completed such a degree. It noted both the number and identity of those students. TLC noted the identity of the students so that it would be able to determine if any of the 250 students also obtained a four-year degree and must be treated as duplicates (see below).

It also found that 35 students received a two-year degree between July 1, 1999 and August 31, 2002. TLC was unable to count these students as completors for Student Right-to-Know purposes, as they had completed the program after the elapse of 150% of normal time for completion; however, TLC chose to use this data as supplemental information.

At this point, TLC also determined the number of transfer-out students in the two-year program by ascertaining the number of students for which it had documents showing that the student had transferred to, and begun classes at, another school. It found that it had documentation on 50 such students.

One hundred and fifty percent of normal time for completion of the four-year program elapsed on August 31, 2002. In September of 2002, TLC determined how many of the 1,000 students had received a four-year degree as of June 30, 2002. It found that 450 students had done so.

Because TLC had identified the completors of the two-year program, it was able to determine that 10 of the students it had counted as 2-year completors had also received a four-year degree. TLC is not permitted to count these students as completors twice, so it deducted the number from the number of two-year degree program completors (it could also have deducted them from the number of four-year completors had it so chosen).

TLC surveyed its records to determine the number of students in the four-year program that it could document as having transferred as of August 31, 2002. It found 65 students had done so.

To determine if any of the students could be excluded from the cohort, TLC searched its records for documentation that showed that a total of 15 students in the original cohort had left the institution for the express purpose of joining a church mission, the armed forces, or a foreign aid program sponsored by the federal government, or had died or become totally and permanently disabled.

TLC calculated its completion rate and transfer-out rate as follows:

$$\frac{\text{450 four-year program completors + (250 two-year program completors - 10 duplicates)}}{\text{1,000 students in cohort - 15 permitted exclusions}}$$

Completion rate = 70%

$$\frac{\text{65 four-year program transfers + 50 two-year transfers}}{\text{1,000 students in cohort - 15 permitted exclusions}}$$

Transfer-out rate = 11.6%

Step 3 - Disclosing the rates

On January 1, 2003, (the January 1 following the expiration of 150 percent of normal time for the entire cohort) TLC published its completion rate and its transfer-out rate for the students who entered in the fall of 1996.

TLC decided to provide separate, supplemental information regarding the completion and retention rates of its part-time students because it has a large part-time student population. It also provided separate, supplemental information on the number of students who completed the two-year program after four years and after five years. It could have also provided separate, supplemental information on students who transferred into the school from another school had it so wished.

Athletically Related Student Aid Disclosure Requirements

Athletically related student aid

Schools that participate in an SFA Program and offer athletically related student aid must provide information on completion rates, transfer-out rates, and other statistics for students who receive athletically related student aid to potential student athletes, and to their parents[2], high school coach, and guidance counselors.

Athletically related student aid — any scholarship, grant, or other form of financial assistance offered by the school, the terms of which require the recipient to participate in a program of intercollegiate athletics at the school in order to be eligible to receive such assistance.

This definition of "athletically related student aid" is the same definition that is used for the EADA disclosure requirements, and the PPA requirements for schools that award athletically related student aid (see pages 3-185 and 3-188). The definitions of "certificate- or degree-seeking students," "first-time freshman students," "undergraduate students," and "normal time" are the same as those used for the calculation of completion and transfer-out rates for a school's general student body (discussed above).

[2]In cases of separation or divorce when it may be difficult to locate both parents, the provision of the required information to the parent who acts as guardian of the student is acceptable.

Step 1 - Determining the cohort

A school must determine the cohort as described on pages 3-175 to 3-176.

Step 2 - Calculating the rates

Schools that provide athletically related student aid must report three completion rates and three transfer-out rates:

- ◊ a completion rate and transfer-out rate for the general student body (see page 3-177),
- ◊ a completion rate and transfer-out rate for the members of the cohort who received athletically related student aid (this rate is calculated in the same manner as the rates for the general student body, but must be broken down by race and gender within each sport), and
- ◊ the average completion rate and average transfer-out rate for the four most recent completing classes of the cohort categorized by race and gender for the general student population, and for race and gender within each sport. (Until the year 2000, a school may not have four years of data. In this case, the school must report an average completion rate for all the years for which it has data.)

Information that is required to be reported by sport must be broken down into the following categories:

- ◊ Basketball,
- ◊ Football,
- ◊ Baseball,
- ◊ Cross-country and track combined, and
- ◊ All other sports combined.

In addition to the completion rates and transfer-out rates, schools must report

Required disclosure of additional data

- ◊ the number of students, categorized by race and gender, who attended the school during the year prior to the submission of the report, and

- ◊ the number of those attendees who received athletically related student aid, categorized by race and gender.

As in the calculation of completion rates and transfer-out rates for the general student body, a school may exclude from the cohort students who

- ◊ have left school to serve in the Armed Forces,
- ◊ have left school to serve on official church missions,
- ◊ have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, and
- ◊ are deceased, or totally and permanently disabled.

Step 3 - Disclosing the rates

The report must be completed by July 1, beginning July 1, 1997. The report must be submitted to the Department every July 1 (beginning July 1, 1997). A school must also provide the report to each prospective student athlete and his or her parents, coaches, and counselor when an offer of athletically related student aid is made to the prospective student. Data must be disclosed beginning on the July 1 immediately following the expiration of 150 percent of normal time for the cohort entering during the 1996-97 academic year. Therefore, schools will not be required to disclose this information for approximately one year after the expiration of the 150 percent period.

For the first year, schools are not required to provide completion rate information for students who enter before the 1996-97 academic year. However, if a school has data on students entering prior to the 1996-97 academic year (as the result of NCAA requirements, for example) the school should report these data in the four year averages.

Schools that are not yet reporting completion rate or transfer-out rates because they do not have the necessary data must still disclose the additional data regarding the number of students who attended the previous year, categorized by race and gender, and the number who attended the previous year and who received athletically related student aid, categorized by race and gender within each sport.

There is a de minimus exception to the disclosure requirements for the completion or graduation rates of student athletes that allows schools not to disclose those rates for categories that include five or fewer students.

De minimus exception

Schools may also provide to the Department and to students supplemental information containing the completion rate of students who transferred into the school and the number of students who transferred out of the school.

Supplemental Information

Schools are strongly encouraged to provide additional information to place their completion or transfer-out rates for both the general student body and those related to athletically related student aid in context. For example, a small school's completion rate may vary greatly from year to year because the school's calculations use a very small cohort. The school may wish to provide prior years' data and an explanation of factors affecting their completion rate.

Placing rates in context

Also, if a school's completion rate is lowered because a large percentage of students serve on church missions, the school may wish to provide supplemental information with the required calculation to provide the completion rate of those students when an extended time frame is applied.

Although schools must calculate and disclose the transfer-out rate separately from their completion rate, a school may wish to provide additional information that combines the completion rate with its transfer-out rate if the school believes this provides a more accurate picture of the school.

EQUITY IN ATHLETICS

Regulations published November 29, 1995 implemented the provision of the Improving America's Schools Act of 1994 titled the "Equity in Athletics Disclosure Act" (EADA). The EADA is designed to make prospective students aware of the commitments of a school to providing equitable athletic opportunities for its men and women students. Certain coeducational schools are required to prepare an annual report on participation rates, financial support, and other information on men's and women's intercollegiate athletic programs.

The EADA requires schools to make this report available upon request to students, potential students, and the public.

Who must prepare a report?

Any coeducational institution of higher education that participates in an SFA Program and has an intercollegiate athletic program must prepare an EADA report.

How is the report prepared?

A school must first designate its reporting year. A reporting year may be any consecutive 12-month period of time. For its designated reporting year, a school must report

- ◊ the number of male and female full-time undergraduate students that attended the school (undergraduate students are those who are consistently designated as such by the school),
- ◊ the total amount of money spent on athletically related student aid (including the value of waivers of educational expenses) for: 1) men's teams and 2) women's teams,
- ◊ the ratio of athletically related student aid awarded to male athletes to athletically related student aid awarded to female athletes (see the definition of athletically related student aid on page 3-182),
- ◊ the total amount of **recruiting expenses** for: 1) all men's teams and 2) all women's teams,
- ◊ the total annual revenues for: 1) all men's teams and 2) all women's teams (a school may also report these revenues by individual teams),
- ◊ the average annual **institutional salary** of the head coaches for all offered sports of 1) men's teams and 2) women's teams,[3]
- ◊ the average annual **institutional salary** of the assistant coaches for all offered sports of 1) men's teams and 2) women's teams, and
- ◊ a listing of the **varsity teams** that competed in intercollegiate athletic competition and for each team, the following data:
  - total number of **participants** as of the day of the first scheduled contest of the reporting year for the team,

[3]If a head coach had responsibility for more than one team and your school does not allocate that coach's salary by team, you must divide the salary by the number of teams for which the coach had responsibility and allocate the salary among the teams on a basis consistent with the coach's responsibilities for the different teams.

- total operating expenses (expenditures on lodging and meals, transportation, officials, uniforms, and equipment) attributable to the team,[4]

- gender of the head coach (including any graduate assistant or volunteer who served as head coach) and whether he or she was assigned on a full-time or part-time basis,

- number of male assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis, and

- number of female assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis.

Definitions

Recruiting expenses are all expenses schools incur for recruiting activities including, but not limited to, expenditures for transportation, lodging, and meals for both recruits and institutional personnel engaged in recruiting, all expenditures for on-site visits, and all other expenses related to recruiting.

Institutional salary is all wages and bonuses a school pays a coach as compensation attributable to coaching.

In addition to teams that are designated as "varsity" by the school or an athletic association, **varsity teams** include any team that primarily competes against other teams that are designated as varsity.

Participants on varsity teams include not only those athletes who take part in a scheduled contest, but also any student who practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest of the designated reporting year. This includes junior varsity team and freshmen team players if they are part of the overall varsity program. Schools should also include all students who receive athletically related student aid, including redshirts, injured student athletes, and fifth-year team members who have already received a bachelor's degree.

Availability of report

A school must make the report available to students, prospective students, and the public in easily accessible places. For example, a school may make copies of the report available in intercollegiate athletic offices, admissions

[4]A school also may report those expenses on a per capita basis for each team and may report combined expenditures attributable to closely related teams, such as track and field or swimming and diving. Those combinations must be reported separately for men's and women's teams.

offices, libraries, or by providing a copy to every student in his or her electronic mailbox. **In addition, a school must provide the report promptly to anyone who requests the information.** For example, a school may not refuse to provide a copy of the report to the news media, and the school may not require an individual requesting the information to come to the school to view the report.

A school must inform all students and prospective students of their right to request the information. For example, the school may publish a notice at least once a year in a school publication, the school catalogue, registration materials, or relevant intercollegiate athletic department publication distributed to all students.

A school may not charge a fee to students, potential students, parents or coaches who ask for the information; however, schools are not prohibited from charging the general public a fee to cover copying expenses only.

Reporting deadlines

Schools were required to compile and make available its first report by October 1, 1996. Each subsequent report must be compiled and made available by October 15 each year thereafter. A school does not have to submit this report to the Department unless specifically requested by the Department. The Department may request that a school provide a copy of the report (for example, as part of a program review or compliance audit) in order to verify its compliance with these requirements.

Optional form

The Department has developed an optional form for reporting the EADA data (see page 3-193). Schools are not required to use this form. Different reporting formats are acceptable, as long as they provide all the required information.

PPA REQUIREMENTS FOR SCHOOLS AWARDING ATHLETICALLY RELATED FINANCIAL AID

The Higher Education Amendments of 1992 added language to the PPA concerning additional administrative requirements for institutions offering athletically related student aid (see the definition of athletically related student aid on page 3-182).

Participating schools must compile an annual report, within six months of the end of each fiscal year, that provides the following figures:

- ◊ total school revenues earned from intercollegiate athletics;
- ◊ revenues earned from each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined;

- ◊ total expenses of intercollegiate athletics;
- ◊ expenses for each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined; and
- ◊ total revenues and total operating expenses of the school.

Revenue— Includes, but is not limited to, gate receipts, broadcast revenues and other conference distributions, appearance guarantees and options, concessions, and advertising (student activity fees, alumni contributions, and investment income not allocable to a sport may be counted in total revenues only).

Expenses— Includes grants-in-aid, salary and payroll, travel costs, equipment and supply purchases (general and administrative overhead costs may be counted in total expenses only).

The school's reports must be independently audited every three years. The reports and, where allowable by state law, the audits must be made available to the Department and the public. At this time, schools are not required to submit this information to the Department.

Note that the definition of "expenses" found here is different from the definition of "expenses" that is used for purposes of the EADA requirements. Also, the PPA provisions described here specify the teams for which data must be provided while the EADA provisions require schools to provide certain data *for all varsity teams*.

LOAN COUNSELING

Before a Federal Perkins, FFEL, or Federal Direct Loan borrower takes out a loan, the school must counsel that borrower, individually or in a group with other borrowers. The school must give the borrower general information on the average anticipated monthly repayments on the loan, available repayment options, and advice on debt management planning, to facilitate repayment and deferment/cancellation provisions, if applicable, and other terms and conditions. This loan counseling must also be provided before the borrower completes his or her course of study, or otherwise leaves the school. For a complete discussion of loan counseling requirements, please see Chapter 6 (Perkins loans), Chapter 10 (FFEL loans), and Chapter 11 and Direct Loan entrance and exit counseling guides (Direct loans).

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

Schools that participate in the campus-based programs must provide information under the Drug-Free Workplace Act of 1988 (Public Law 101-690), including a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. In addition, the Drug-Free Schools and Communities Act (Public Law 101-226) requires schools that participate in *any* SFA Program to provide information to its students, faculty, and employees to prevent drug and alcohol abuse. A school must provide the following in its materials:

Distribution of materials to all students & employees

- ◊ standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as a part of the school's activities;
- ◊ a description of the applicable legal sanctions under local, state, and federal law for unlawful possession, use, or distribution of illicit drugs and alcohol;
- ◊ a description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees;
- ◊ a description of the health risks associated with the use of illicit drugs and alcohol; and
- ◊ a clear statement that the school will impose sanctions on students and employees (consistent with local, state, and federal law) and a description of these sanctions, up to and including expulsion or termination of employment, and referral for prosecution of the standards of conduct.

The appendices and Comments and Responses sections of the August 16, 1990 regulations provide additional guidance and information for schools to use in developing these materials.

Information to be included in drug prevention materials

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks. The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. (For more information on anti-drug abuse requirements, see Section 2.)

Definition of misrepresentation

The General Provisions regulations permit the Department to fine a school, or limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Misrepresentation—Any false, erroneous or misleading statement made to a student or prospective student,[5] to the family of an enrolled or prospective student, or to the Department. This includes disseminating testimonials and endorsements given under duress.

Substantial Misrepresentation— any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Accreditation, facilities, etc.

Misrepresentation of the educational program includes false or misleading statements about the school's accreditation, the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, it must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students *not receiving a scholarship*.) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation of scholarships

Misrepresentation of employability of graduates

Misrepresentation of the employability of the school's graduates includes any false or misleading statements

- that the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- that the school maintains a placement service for graduates or will otherwise secure or assist graduates in securing a job, unless it provides the student with a clear and accurate description of the extent and nature of the service or assistance, or
- concerning government job market statistics in relation to the potential placement of its graduates.

The regulatory provisions concerning misrepresentation are given in detail on the next page.

[5]The regulations define prospective students as individuals who have contacted the school to inquire about enrolling at the school or who have been contacted directly by the school or indirectly through general advertising about enrolling at the school.

Nature of educational program

§668.72 Misrepresentation by an institution of the nature of its educational program includes, but is not limited to, false, erroneous or misleading statements concerning

- The particular type(s), specific source(s), nature and extent of its accreditation;
- Whether a student may transfer course credits earned at the institution to any other institution;
- Whether successful completion of a course of instruction qualifies a student for: acceptance into a labor union or similar organization; or receipt of a local, state, or federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- Whether its courses are recommended by vocational counselors, high schools or employment agencies, or by governmental officials for government employment;
- Its size, location, facilities or equipment;
- The availability, frequency and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- The nature, age and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- The number, availability and qualifications, including the training and experience, of its faculty and other personnel;
- The availability of part-time employment or other forms of financial assistance;
- The nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during or after the completion of a course;
- The nature and extent of any prerequisites established for enrollment in any course; or
- Any matters required to be disclosed to prospective students under Sec. 668.44 (institutional information) and 668.47 (campus security information) of this part.

Nature of financial charges

§668.73 Misrepresentation by an institution of the nature of its financial charges includes, but is not limited to, false, erroneous or misleading statements concerning

- Offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students not receiving a scholarship and are made known to the student in advance; or
- Whether a particular charge is the customary charge at the institution for a course.

Employability of graduates

§668.74 Misrepresentation by an institution regarding the employability of its graduates includes, but is not limited to, false, erroneous or misleading statements

- That the institution is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- That the institution maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance, or
- Concerning government job market statistics in relation to the potential placement of its graduates.

Equity in Athletics Disclosure Act—Optional Form

All coeducational institutions of higher education that participate in any federal student financial aid program (Federal Pell, Federal SEOG, and Federal SSIG Grants; Federal Work Study; and Federal Family Education, Federal Perkins, and William D. Ford Federal Direct Loans) and have intercollegiate athletic programs under the Equity in Athletics Disclosure Act of 1994, Section 360B of Public Law 103-382. This Act and accompanying federal regulations require that the following information, based on the previous reporting year, be available for inspection by students, prospective students, and the public by October 1, 1996, and by October 15 each year thereafter. An institution may use this or any format to disclose this information.

I. General Information

A. Institution:_____

Information is for the reporting year beginning _____ and ending_____

B. *Optional*_____

Name of person completing form: _____

Signature:_____

Title:_____

Phone:_____

Date completed: _____

Current Organizational Classification:

NCAA Division____ NAIA Division ____ Other_____

C: Enrollment: Indicate the number of undergraduates by gender:

	#	%
Male undergraduates	____	____
Female undergraduates	____	____
Total undergraduates	____	100%

II. Intercollegiate Athletics—Varsity Teams

A. Athletic Participation: Indicate the number of participants by gender for each varsity team. A participant is a student who either a) is listed as a team member, b) practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest, or c) receives athletically-related student aid. Mark coed teams, specify "other" teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS
BASKETBALL		
BASEBALL		
CROSS COUNTRY		
DIVING		
FENCING		
FIELD HOCKEY		
FOOTBALL		
GOLF		
GYMNASTICS		
ICE HOCKEY		
LACROSSE		
RIFLE		
ROWING		
SKIING		
SOCCER		
SOFTBALL		
SQUASH		
SWIMMING		
SYNCHRONIZED SWIMMING		
TRACK & FIELD		
TEAM HANDBALL		
TENNIS		
VOLLEYBALL		
WATER POLO		
WRESTLING		
OTHERS (SPECIFY TEAMS)		
TOTAL PARTICIPANTS		

B. Operating Expenses: For each team, please indicate total institutional expenditures for lodging, meals, transportation, officials, uniforms and equipment for both home and away games. You may report co-ed team expenses separately, or prorate them as part of men's and women's teams expenses, but you may not report the same coed expenses both ways. Specify all "other" teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS	CO-ED TEAMS	TOTALS
BASKETBALL				
BASEBALL				
CROSS COUNTRY TRACK & FIELD				
FENCING				
FIELD HOCKEY				
FOOTBALL				
GOLF				
GYMNASTICS				
ICE HOCKEY				
LACROSSE				
RIFLE				
ROWING				
SKIING				
SOCCER				
SOFTBALL				
SQUASH				
SWIMMING & DIVING				
SYNCHRONIZED SWIMMING				
TEAM HANDBALL				
TENNIS				
VOLLEYBALL				
WATER POLO				
WRESTLING				
OTHERS (SPECIFY TEAMS)				
TOTAL EXPENSES	$ (%)	$ (%)	$ (%)	$ (100%)

C. Head Coaches: For each team, please indicate the gender of the head coach (including volunteers) and whether the head coach is assigned to the team on a full-time or part-time basis. Specify "other" teams, and use additional pages if necessary.

PROGRAMS	HEAD COACH MEN'S TEAMS				HEAD COACH WOMEN'S TEAMS				HEAD COACH CO-ED TEAMS			
	MALE		FEMALE		MALE		FEMALE		MALE		FEMALE	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
BASKETBALL												
BASEBALL												
CROSS COUNTRY												
DIVING												
FENCING												
FIELD HOCKEY												
FOOTBALL												
GOLF												
GYMNASTICS												
ICE HOCKEY												
LACROSSE												
RIFLE												
ROWING												
SKIING												
SOCCER												
SOFTBALL												
SQUASH												
SWIMMING												
SYNCHRONIZED SWIMMING												
TEAM HANDBALL												
TENNIS												
TRACK & FIELD												
VOLLEYBALL												
WATER POLO												
WRESTLING												
OTHERS (SPECIFY TEAMS)												
TOTALS												

D. Assistant Coaches: For each team, please indicate the number of assistant coaches by gender (including volunteers) and whether they are assigned to the team on a full-time or part-time basis. Specify "other" teams, and use additional pages if necessary.

PROGRAMS	ASS'T COACHES MEN'S TEAMS				ASS'T COACH WOMEN'S TEAMS				ASS'T COACH CO-ED TEAMS			
	MALE		FEMALE		MALE		FEMALE		MALE		FEMALE	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
BASKETBALL												
BASEBALL												
CROSS COUNTRY												
DIVING												
FENCING												
FIELD HOCKEY												
FOOTBALL												
GOLF												
GYMNASTICS												
ICE HOCKEY												
LACROSSE												
RIFLE												
ROWING												
SKIING												
SOCCER												
SOFTBALL												
SQUASH												
SWIMMING												
SYNCHRONIZED SWIMMING												
TEAM HANDBALL												
TENNIS												
TRACK & FIELD												
VOLLEYBALL												
WATER POLO												
WRESTLING												
OTHERS (SPECIFY TEAMS)												
TOTALS												

Please provide definitions of full-time and part-time coaches:

III. Overall Athletics Program

A. **Recruiting Expenditures:** Please report the total institutional expenditures associated with recruiting for the men's and women's teams. Costs include, but are not limited to: transportation, lodging and meals for both recruits and institutional personnel engaged in recruiting; expenditures for on-site visits; and all other major expenses logically-related to recruiting. You may report expenditures for coeducational teams separately, or as a pro-rated portion of the expenditures for men's and women's teams. Do not list the same expenses under both men's and women's teams **and** coeducational teams.

Men's Teams	$_____	_____%
Women's Teams	$_____	_____%
Coeducational Teams	$_____	_____%
Total	$_____	100%

Please explain how these figures were derived:

B. Revenue: Please report the total revenue for the reporting year generated by all men's and women's teams. You may report revenues for coeducational teams separately, or as a pro rated portion of the revenues reported for men's and women's teams. Do not report the same revenues under both men's or women's teams **and** coeducational teams.

Men's Teams	$_____	_____%
Women's Teams	$_____	_____%
Coeducational Teams	$_____	_____%
Total	$_____	100%

C. Athletically-Related Student Aid: Please report the total amount of athletically-related student aid awarded men and women student athletes. Athletically-related student aid is aid awarded a student that requires the student to participate in an intercollegiate athletics program.

Athletically-related student aid awarded male athletes	$_____	___%
Athletically-related student aid awarded female athletes	$_____	___%
Total amount of athletically-related student aid	$_____	100%

D. Head Coaches' Salaries: Please report the average annual institutional salary of the head coaches of the men's and women's student teams. Volunteer head coaches and head coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report average salaries of head coaches of coeducational teams separately, or as a pro rated portion of the salaries of head coaches of men's and women's teams. Do not list the same salaries under both men's or women's teams **and** coeducational teams. Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of head coaches for men's teams $_____
Number of head coaches included in this average ___

Average salary of head coaches for women's teams $_____
Number of head coaches included in this average: ___

Average salary of head coaches for coeducational teams $_____
Number of head coaches included in this average: ___

E. Assistant Coaches' Salaries: Please report the average annual institutional salary of the assistant coaches of the men's and women's student teams. Volunteer assistant coaches and assistant coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report the average salary of assistant coaches of coeducational teams separately, or as a pro rated portion of the salaries of assistant coaches of men's and women's teams. Do not report the same salaries under both men's or women's teams **and** coeducational teams Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of assistant coaches for men's teams $_____
Number of assistant coaches included in this average ___

Average salary of assistant coaches for women's teams $_____
Number of assistant coaches included in this average: ___

Average salary of assistant coaches for coeducational teams $_____
Number of assistant coaches included in this average: ___

IV. Optional Section

An institution is encouraged to provide here any further information it believes might be helpful to students, prospective students, or the public to interpret the information provided above, or that might help a prospective student-athlete make an informed choice of an athletic program. For example, an institution may include here a history of its athletic programs, or explanations of unusual or exceptional circumstances that would better explain the data or their significance.

Section 9 Applying for and Maintaining Participation in the SFA Programs

In this section, we will discuss how and when a school applies for approval to participate in any Student Financial Assistance (SFA) Program. We also will discuss changes that can affect a school's participation, how and when to report these changes, responsibilities that a school must fulfill when leaving the SFA Programs, changes to the Department's approach to oversight, and reasons the Department may take corrective actions and institute sanctions against a school.

APPLYING TO PARTICIPATE

To participate in any of the SFA Programs—the Pell Grant Program, the Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, and the campus-based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)—a school must be approved and certified by the Department.

To apply for institutional participation, a school must submit an *Application for Approval to Participate in Federal Student Financial Aid Programs* (Application) to the Department. In evaluating the school and deciding whether to approve or deny the request to participate in any SFA Program, the Department examines the Application and accompanying submissions. In addition, for schools that are participating or have participated in the SFA Programs, the Department will examine a school's audits and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as school catalogs or copies of contracts with third-party servicers) and ask additional questions.

The Department uses this input to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Section 1 and Section 2.

When to complete an Application

A school submits a *fully completed* application to the Department when it

- ◊ wishes to be approved for the first time (*initial certification*) to participate in the SFA Programs;
- ◊ undergoes a change in ownership, a conversion to a nonprofit institution, or a merger of two or more institutions (referred to collectively as a "change in ownership or structure" for the remainder of the section) and wishes to participate in the SFA Programs;
- ◊ wishes to be reapproved (*recertification*) to participate in the SFA Programs (the application must be completed 90 days before the expiration of the current Program Participation Agreement (PPA);
- ◊ wishes to be designated as an "eligible institution" under the Higher Education Act of 1965, as amended (HEA), so that its students may receive deferments under the SFA Programs, or so that the school may apply to participate in federal HEA programs other than the SFA Programs; or
- ◊ wishes to be reinstated to participate in the SFA Programs.

Each of these five circumstances is discussed in more detail later in this section.

Application on the Web

Beginning July 1, 1998, applications for recertification, reinstatement, or changes in ownership or structure must be submitted to the Department electronically through the Internet (for more information, see the "Standards of Administrative Capability" discussion in Section 2). A signature page is still required and must be mailed separately along with all required supporting documentation. The Department will make the Application available on the Department's home page on the World Wide Web. The address is

http://www.eligcert.ed.gov

Applications for initial certification may not be submitted over the Internet during the initial phase of this process. The Department provides the Application to a school seeking initial certification in both paper and computer disk versions. To complete the disk version of the Application,

the school uses the electronic database disk and returns the disk to the Department. A school seeking initial certification can request an Application from the Department's Institutional Participation and Oversight Service (IPOS):

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805
Telephone: 202-260-3270

In addition, the Application is available in Portable Document Format (PDF). A school seeking initial certification may download this version from the Department's home page on the World Wide Web. The address is

http://www.ed.gov/offices/OPE/Professionals/pubs.html

Submission of applications for initial certification

The school must then complete and return the Application to the Institutional Participation and Oversight Service, along with photocopies of requested documents. An Application sent by mail should be sent to the Department address listed above. An Application sent by overnight mail/courier delivery service should be sent to

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20406

For all versions of the Application, the Department recommends that the school keep a copy of its application (and supporting documents) and retain proof of the date when it submitted the Application. The completed version of the Application—paper, electronic, or smart disk—is sent to the Department. With all versions, the school must submit the *paper* page containing the original authorizing signature of the school's President/Chief Executive Officer (CEO)/Chancellor.

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The Application is divided into 13 sections, plus a glossary at the end.

This Section...	Is for...
A through D	General questions about the school.
E and F	Questions about educational programs and locations that the school wishes to be eligible for SFA Programs.
G	Questions about telecommunications and/or correspondence (tele/corr) courses, students enrolled under ability-to-benefit provisions, and incarcerated students.
H	Schools that are initial applicants, schools with a change in ownership or structure, and schools seeking reinstatement.
I	Foreign institutions, including foreign graduate medical schools.
J	Questions about third-party servicers that perform any function relating to the school's SFA Programs.
K	Questions about the school's administrative capability and financial responsibility.
L	The school's President/CEO/Chancellor to sign.
M	A checklist of copies of documents that must be included, as applicable.[1]
Glossary	Specific definitions of terms used in the application.

If a school has questions, it is encouraged to contact the Institutional Participation and Oversight Service.

[1]These include the school's current letter of accreditation; valid state license or other state authorization; and, in some cases, audited financial statements, a default management plan and, for a school undergoing a change in ownership, an audited balance sheet showing the financial condition of the school at the time of the change in ownership.

Submission time frames

An application with missing information or materials that are still to come is considered incomplete. The time frames for submitting a fully completed application depend on a school's current status:

- A school seeking initial certification to participate in the SFA Programs may submit an Application to the Department at any time.[2]

- A school that undergoes a change in ownership or structure and wishes to participate in the SFA Programs must notify the Department no later than 10 calendar days after the change occurs. If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day. After the school receives its state and accrediting agency approvals, it submits the Application together with photocopies of the approvals. See page 3-210 for more information on changes in ownership or structure.

- A school seeking to be recertified to continue to participate in the SFA Programs should submit an Application before the expiration date listed in its Program Participation Agreement (PPA). If the school submits its fully completed application to the Department *no later than 90 calendar days before* its PPA expires, its eligibility to participate in the SFA Programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its Application by April 1, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its application no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires. If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire and the SFA Program funding will cease.

- A school that wishes to apply to become an eligible institution so that its students may receive deferments under federal student loan programs, or so that it may participate in federal HEA programs other than the SFA Programs, may submit an Application to the Department at any time.

[2]In the case of a proprietary institution and a postsecondary vocational institution, there is an eligibility requirement that the school must have been providing continuous postsecondary instruction for at least two consecutive years before it can participate in the SFA Programs. This is known as the Two-Year Rule. (See Section One.)

- A school that voluntarily left the SFA Programs may seek to be reinstated at any time. A school that was terminated from the SFA Programs or that left because it was about to be terminated or otherwise sanctioned generally must wait 18 months before applying for reinstatement.

The Department considers the date of submission to be the postmark date *or* a delivery service's or courier's written verification or printout of the shipping date.

Status following submission

Following submission of an Application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. Depending on the outcome of its review, the Department either will send a school copies of the PPA to sign (and further instructions) *or* notify it that its application is not approved.

School's status during Department review

During the Department's application review period, a school's status is as follows:

- If a school has never been certified (and it is seeking initial certification), it will not be considered certified during the Department's review period.

- If a school has a change in ownership or structure, its participation in the SFA Programs stops. The institution may not award SFA Program funds beginning on the date that the change becomes effective until it receives a new PPA signed on behalf of the Secretary of Education. (Exceptions for unpaid commitments of SFA Program funds are discussed on page 3-213).

- If a school is certified (and it is seeking recertification), it will remain certified during the Department's review period if it submitted its application during the correct time frame described earlier in this section.

- If a school has never been an eligible institution under the HEA, it will not be considered eligible during the Department's review period.

- If a school once participated in the SFA Programs but no longer does so, it will not be considered certified during the Department's review period.

PPA & ECAR

If the Department approves a school's application, the Department sends the school two copies of a PPA (see Section 2). The PPA includes the date on which the school's eligibility to participate expires. The school must sign and return both copies of the PPA to the Department. The Department then sends the school an Eligibility and Certification Approval Report (ECAR) and the school's copy of the PPA, signed and dated on behalf of the Secretary. The ECAR contains the most critical of the data elements that form the basis of the school's approval and also a list of the highest level of offering, any nondegree program or short-term programs, and any additional locations that have been approved for the SFA Programs. Both of these forms must be kept available to be reviewed by auditors and Department officials, including the SFA Program reviewers.

Effective date for participation

The date the PPA is signed on behalf of the Secretary is the date the school may begin SFA Program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program. For more information, see Chapter 11.) Pell Grant and campus-based program disbursements to students may begin in the *payment period* that the PPA is signed on behalf of the Secretary. FFEL and Direct Loan program disbursements may begin in the *loan period* that the PPA is signed on behalf of the Secretary. The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the SFA Programs.

Provisional certification

In certain cases, rather than granting full approval to participate, the Department may grant a school conditional approval to participate in the SFA Programs (for up to three complete award years). Referred to as "provisional certification" in the law, this approval is granted at the Department's discretion.

Expired PPA

The Department will, if it approves the school, offer provisional certification to a school that allowed its PPA to expire and reapplied to participate in the SFA Programs after its approval to participate ended. (Note: If a school applying for recertification meets the submission deadlines detailed in the introduction to the Application, its PPA remains in effect until the Department either approves or does not approve the application.) If the Department grants a provisional certification, the PPA details the provisions of the certification.

PRECERTIFICATION TRAINING REQUIREMENT

Before a school may participate in any SFA Program for the first time, it must send two representatives (an administrative official and a financial aid representative) to a basic precertification training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership or structure to attend the training.

Note: The Application now allows a school to select the SFA Program(s) it wishes to participate in and opt not to participate in others. If the school later decides that it would like approval to participate in SFA Programs in addition to the ones indicated on its submitted Application, it is required to send representatives to precertification training again. This is because the law requires that training must take place before each first-time approval to participate in an SFA Program is granted. However, if the school's designated representatives attended the Department's required precertification training within the last year, rather than attend training again the school may request that the Department conduct an on-site review. An on-site review may be granted at the Department's discretion.

The five-day precertification workshop provides a general overview of the SFA Programs and their administration. It does not cover fiscal and accounting procedures in detail; the Department offers fiscal officer training separately.

- The attending administrative official must be the school's CEO for a for-profit school; nonprofit schools may send another official designated by the CEO. The administrative official must attend at least the first two days of the workshop.
- The attending financial aid representative must be the person designated by the school to be responsible for administering the SFA Programs. The financial aid representative must attend all five days of the workshop.
- If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper SFA Program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

A school affected by this precertification training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions along with an Application. The school will not be approved to participate in the SFA Programs until the training requirement is met.

The regulations allow schools to meet the precertification requirement by sending the specified individuals to other training programs that are approved by the Department. However, at this time no precertification training programs other than the Department's have been approved.

Other times provisional certification may be granted are when

- ◊ a school is applying to participate for the first time (if approved, it will be provisionally certified for up to one complete award year),
- ◊ a participating school is reapplying because it has undergone a change in ownership or structure (see the discussion that follows),
- ◊ a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA,
- ◊ a participating school's accrediting agency loses its Departmental approval (it may be provisionally certified for no more than 18 months after the agency's loss of approval),
- ◊ it is determined that a school is not financially responsible but the school has met other requirements and has accepted provisional certification, or
- ◊ a school that is reapplying for certification has a high default rate.

Revoking provisional certification

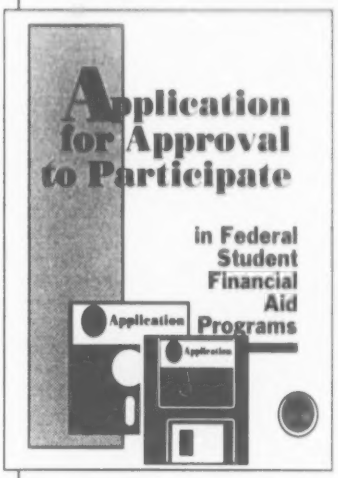
If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school's participation in the SFA Programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by certified mail (or other expeditious means); the revocation takes effect on the date the Department mails the notice.

The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. A Department official will review the request and notify the school by certified mail of his or her decision. If the Department official determines that the revocation is warranted, the school may not apply for reinstatement for 18 months after the revocation or after the expiration of any debarment/suspension action, whichever is later.

Recertification

A participating school that wishes to continue to participate in the SFA Programs is required to apply to renew its certification approval (recertification) before the expiration date in its current PPA. A school is responsible for monitoring the expiration date on its PPA and submitting an application for recertification at least 90 days before the PPA expires. See page 3-205 for information on time frames for submitting a recertification application.

WHEN TO SUBMIT A FULLY COMPLETED APPLICATION



As mentioned previously, there are five circumstances when a school that wishes to participate in SFA Programs must submit a fully completed Application to the Department:

◊ initial certification,

◊ change in ownership or structure,

◊ recertification,

◊ designation as an "eligible institution," and

◊ reinstatement

Other types of changes require a school to *notify* the Department (see page 3-217).

Initial Certification

A school must submit a fully completed Application the first time it wishes to participate in one or more SFA Programs.

Change in Ownership or Structure

A school must submit a fully completed Application following a change in ownership, a conversion to a nonprofit institution, or a merger of two or more schools (referred to collectively as a "change in ownership and structure"). In these cases, the law states that the PPA signed by the former owner automatically expires on the date when the change takes place, and the school's SFA participation ends. The school retains its default rates and other administrative capability factors; if it is a proprietary institution or postsecondary vocational institution, it does not, however, need to meet the Two-Year Rule.

The Department must be notified of the change within 10 days and, if the school wishes to reestablish its eligibility to participate in one or more SFA Programs, an Application must be submitted and approved.[3] Notification of changes in ownership or structure must be made to

U.S. Department of Education
Institutional Participation and Oversight Service
Accreditation and Eligibility Determination Division
Initial Participation Branch
600 Independence Avenue, SW
Washington, DC 20202-5244
FAX: (202) 260-3605

Change in controlling interest

A change in ownership and control occurs when a person or corporation obtains new authority to control a school's actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this change in controlling interest is when the school is sold to a new owner.

Control of a school can change in other ways, too. For instance, a school can convert from a for-profit to a nonprofit institution (or vice versa). This is a change in tax status. A school's control may change when two or more schools merge or one school divides into several schools. A school's control also changes in situations where a school transfers a significant amount of stock to another person or corporation or when a school transfers its assets or liabilities to another corporation (including related corporations under the same ownership).

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation *and* managing control of the corporation.

(For a more detailed list of the types of circumstances that signify a change in ownership or structure, see 34 CFR 600.31.)

Owner's death or retirement

However, a school does not automatically have to submit a fully completed Application to the Department when a change in ownership and control is caused by the owner's death or retirement and ownership

[3]As discussed previously in this section, a school undergoing a change in ownership or structure, if approved may be provisionally certified by the Department for up to three years.

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transfers to a family member[4] or to a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer. In these situations, the school must notify the Department of the change and provide any supporting information requested by the Department.

The law requires that a school must report to the Department the identity of every owner or person directly or indirectly holding 25% or greater interest in the school.

Changes in ownership interest must be reported to the Department; 25% threshold

The school must report any change in ownership interests whenever

- ◊ an owner acquires a total interest of 25% or greater,
- ◊ an owner who held 25% or greater interest reduces his or her interest to less than 25%, or
- ◊ an owner of 25% or greater interest increases or reduces his or her interest but remains the holder of at least 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentage(s) of ownership interests must be reported to the Department.

Reporting

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional participation approval process, program reviews, and audit process.

An individual or corporation has the ability to substantially affect the school's actions when he or she or it

- ◊ personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school,
- ◊ personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,

[4]A family member is defined as a parent, sibling, spouse, child, spouse's parent, spouse's sibling, or child's spouse.

- ◊ is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or

- ◊ is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.

Ownership Interest—A share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

The regulations [34 CFR Part 600.30(e) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entirety, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees (except that voting rights of employee stock plans may be attributed to anyone having authority to vote those shares).

To ensure that its SFA Program participation isn't jeopardized, a school must report an ownership change (including the name[s] of the person[s] involved) to the Department. On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a fully completed Application if it wishes to participate in the SFA Programs.

Steps to be taken by former owners

If a school is changing control, the former owner(s) must notify the Department about the change and the date it occurs. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the new owner is responsible for doing so.) The current owner also should notify the appropriate state agency that licensed or approved the school.

Payments to eligible students

Before the change in ownership or structure takes place, the former owner should make sure that all students receive any SFA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the SFA Programs when the change takes place. Generally, a school may

- ◊ use Pell Grant or campus-based funds that it has received or request additional Pell Grant or campus-based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the *payment period*, and

- ◊ credit a student's account with the proceeds of a second or subsequent disbursement of a FFEL Stafford or a Direct Loan to satisfy any unpaid commitment made to the student under the FFEL Stafford or Direct Loan Program from the date participation ends until the scheduled completion of that *period of enrollment*. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school should notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the SFA Program funds beginning on the date that the change becomes effective. If the school's new owner(s) wish the school to participate in one or more of the SFA Programs, the school must submit a fully completed Application to the Department. A school may not submit an Application until the transfer is complete, but many transfers involving schools eligible for SFA participation are complete except that they are contingent upon the school retaining its eligibility for the SFA Programs. Provided such a transfer is final in all other aspects and the transfer in ownership and control has taken place, it is considered complete and the new owner can proceed with the application process.

Steps to be taken by new owners

The new owner should request that the former owner provide copies of the school's existing ECAR, refund policy, default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), compliance audits, and an audited balance sheet showing the financial condition of the institution at the time of the change. The new owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the

school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. (For information on financial responsibility and submitting audited financial statements, see Section 2.)

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award SFA Program funds until it receives a PPA signed on behalf of the Secretary. (As discussed earlier in this section, the school may, at the Department's discretion, be eligible for provisional certification.)

Accepting liabilities & refund policy

If the new owner(s) acquired the school or if the school is the result of a merger of two or more former schools, the new owner is liable for any debts from the former owner's SFA Program administration. The new owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership or structure became effective. The new owner must also abide by the refund policy for students enrolled before the date the change became effective and must honor all student enrollment contracts signed before the date of the change.

Effect of cohort default requirements

As mentioned earlier, the school retains its current and past cohort default rates and must implement any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change in ownership may affect the school's SFA participation. A school with a change in ownership or structure may be denied approval to participate in the SFA Programs on the basis of current default rates. Regardless of the level of the school's cohort default rate, the new owner must submit a new default management plan with the Application.

Audits & close-out procedures

Although a separate financial aid compliance audit is not required when there is a change in ownership or structure, the new owner may choose to have the accounts audited before they are closed out. Any questions about SFA accounts or close-out procedures can be answered by the Department's Financial Management Specialists for the Pell Grant, campus-based, Direct Loan, or FFEL program. The new owner also should check with the Department's appropriate case management team for information on whether the school owes any Department liabilities resulting from program reviews or audits. See Chapter 1 for phone numbers.

Before the date of purchase, the new owner should make sure that all students have received their SFA Program award payments for payment periods and periods of enrollment that began before the date of purchase,

that all SFA Program accounts have been closed out, and that all related reports have been filed properly.

Once the Department determines that a school that has undergone a change in ownership or structure is eligible to participate in the SFA Programs, a new ECAR and signed PPA will be sent and appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing the SFA Program funds in the payment period or loan period (as applicable) in which the new PPA is signed on behalf of the Secretary.

Recertification

A school that wishes to continue participating in the SFA Programs must submit a fully completed Application requesting recertification 90 days prior to the expiration date on its current PPA or the Department otherwise notifies it that recertification is necessary. See page 3-205 for more information on time frames for submitting a recertification application.

Although in the past most PPAs did not have expiration dates, this changed with the 1992 reauthorization of the HEA. It is now a statutory requirement that every four years a school must be reapproved (recertified) to participate in the SFA Programs.

Designation as an Eligible Institution

A school must submit a fully completed Application requesting this certification category when it wishes to be designated as an eligible institution under the HEA but does not wish to participate to the point of awarding federal financial aid funds.

A school may request this type of limited designation so the school's students may receive deferments under federal student loan programs or so the school may apply to participate in HEA programs other than the SFA Programs.

To meet the requirements for its students to defer student loan payments and to take part in other HEA programs, the school is required to be approved as an eligible institution—it is not actually required to award SFA funds. (See Section 1 for information on what constitutes an eligible institution.)

Reinstatement

A school must submit a fully completed Application requesting reinstatement when it wishes to participate again in one or more SFA

Programs after voluntarily or involuntarily leaving the SFA Programs.

A school that voluntarily left one or more SFA Programs (and did not leave because of action about to be taken by the Department) may apply for reinstatement at any time.

A school that the Department terminated from participating in one or more SFA Programs (or that left one or more SFA Programs because it was about to be terminated or sanctioned) has a waiting period before it may apply to be reinstated.

SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

Required reporting

A school is required to report changes to certain information on its approved Application. Some of these changes require the Department's written approval before the school may disburse the SFA Program funds, others do not (see the charts that follow). "Dear Colleague" letter GEN-97-6, published August 1997, provided information on required reporting.

Changes That Require the Department's Written Approval

(The number in parentheses refers to the number of the question on the Application.)

All Schools

- ◊ Change in accrediting agency* (#15)
- ◊ Change in state authorizing agency (#17)
- ◊ Change in institutional structure (#18)
- ◊ Change in educational programs outside of the scope of current approval (#26)
- ◊ Addition of nondegree programs outside of the scope of current approval (#27)
- ◊ Change from or to clock hours or credit hours (#27)
- ◊ Addition of a location (#30)
- ◊ Change to the SFA Programs for which the school is approved** (#37)

For-profit Schools Only

- ◊ Change in the type of ownership (#22)
- ◊ Change in ownership (#24)

*Notify the Department when you BEGIN making ANY change that deals with your school's institution-wide accreditation.

**Approvals from your accrediting agency and state authorizing agency are NOT required for this change.

When one of the changes that requires the Department's written approval occurs, a school must notify the Department by

1) reporting the change and the date of the change to the Department through a letter on school letterhead, within 10 calendar days of the change, and

2) As soon as the school has received approvals for the change from its accrediting agency and state authorizing agency it must send to the Department

- ◊ a letter on the school's letterhead stating the change, the school's 8-digit Office of Postsecondary Education Identification (OPE ID) number, and its 9-digit Employer Identification Number(EIN),
- ◊ copies of the approval for the change,
- ◊ the portion of the Application containing changed information and any required documentation, and
- ◊ Section L of the Application containing the original signature of the appropriate person.

Changes That Do Not Require the Department's Written Approval

All Schools

- ◊ Change to name of school* (#2)
- ◊ Change to the name of a CEO, President, Chancellor (#10)
- ◊ Change to the name of the chief fiscal officer, financial officer (#11)
- ◊ Address change for a principal location* (#29)
- ◊ Address change for other locations* (#30)
- ◊ Change to the school's third-party servicers that deal with the SFA Program funds (#58)

Private nonprofit and for-profit schools only

- ◊ Change to the Board of Directors (but not trustees) (#20)

Foreign schools only (including foreign graduate medical schools)

- ◊ Change to postsecondary authorization (#42)
- ◊ Change to degree authorization (#43)
- ◊ Change to program equivalence (#44)
- ◊ Change to program criteria (#45)
- ◊ Change to U.S. administrative and/or recruitment offices (#46)

Foreign graduate medical schools only

- ◊ Change to facility at which school provides graduate medical instruction (#47)
- ◊ Change to authorizing entity (#48)
- ◊ Change to approval of authorizing entity (#49)
- ◊ Change to length of program (#50)
- ◊ Change to programs located in the United States (#51)

*As soon as it has received approvals for the change from its accrediting agency and state authorization agency, a school must send the Department copies of the approvals for change.

When one of these changes occurs, a school must notify the Department by reporting the change and the date of the change to the Department through a letter on school letterhead, within 10 calendar days of the change. In addition, the letter must include

- ◊ the school's 8-digit Office of Postsecondary Education Identification (OPE ID) number, and its 9-digit Employer Identification Number(EIN),
- ◊ the portion of the Application containing changed information and any required documentation, and
- ◊ Section L of the Application containing the original signature of the appropriate person.

Note that, for a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department (noted on chart), a school must obtain approval from the appropriate accrediting agency and state authorizing agency.

Notifications of changes in ownership or structure must be made to the Institutional Participation and Oversight Service at the address on page 3-211.

All other notifications must be sent by regular mail to

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

or by courier or overnight mail to

U.S. Department of Education
Institutional Participation and Oversight Service
Room 3522
7th and D Streets, SW-GSA Building
Washington, DC 20407

Notification of school closure or bankruptcy

If a change occurs in an Application item not listed in one of the two charts, the school must update the information when it applies for recertification. However, if a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the Application need to be submitted. If a school has questions about changes and procedures, it should contact the Institutional Participation and Oversight Service.

After receiving the required materials (and depending on the circumstances), the Department will evaluate the change(s) and either approve or deny the change and notify the school.

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Adding Locations or Programs

The ECAR that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department. Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must be able to show the Department that the location is properly accredited and licensed by the state.)

For a location to be added, it must meet all institutional eligibility requirements as described in Sections 1 and 2 , *except* the Two-Year Rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from each state in which the school is physically located.

The Department will review the information, and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR or Acknowledgment Notice will be issued. The location is eligible as of the date of the Department's determination. The Department may require a recertification application and a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA. The Department will send the school a revised ECAR.

Note that if a proprietary institution or a postsecondary vocational institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to *any* acquisition of the closed school's assets, even an indirect acquisition.) The acquiring school will also receive a recalculated default rate because the acquiring school assumes the default rate of the closed school (or any additional locations of the closed school).

Two cases when a school may make its own program-eligibility determinations

If a school adds an educational *program* after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility:

- ◊ the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or
- ◊ the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Secretary already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

Note, however, that if the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all SFA Program funds received for the program and all SFA Program funds received by or for students enrolled in that program.

The Department must approve all other added programs

In all other cases, the eligibility of an added educational program must be determined by the Department before the SFA Program funds can be awarded. The school must submit the required Application sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If it approves the additional program, a revised ECAR or Approval Notice is issued for the school, and the school is eligible as of the date of the Department's determination. The school may begin to disburse the SFA Program funds to students enrolled in that program. (For more on program eligibility, see Section 1.)

Waivers

The law mandates percentages of telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Application (which deal with enrollment thresholds in these areas), the school must notify the Department. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (For more information, see Section 1.)

Changes in accreditation

If a school decides to change its primary accrediting agency, it must notify the Institutional Participation and Oversight Service when it *begins* the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its prior accreditation,

and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one institutional accrediting agency, it must submit to the Institutional Participation and Oversight Service (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If the Department ceases to recognize a school's accreditation, the school is no longer eligible to award SFA Program funds or take part in other programs under the Higher Education Act of 1965, as amended.

If a school becomes accredited by more than one agency, it must notify the Institutional Participation and Oversight Service of which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the SFA Programs.

SINGLE IDENTIFIER INITIATIVE

In the 1999-2000 award year, the Department will implement a single eight digit identification numbering system for schools participating in the SFA Programs. The Department is taking steps to designate one OPEID number for schools that currently have more than one number. In July 1997, the Department sent a Program Identifier Report (PIR) and cover letter to each financial aid office of participating SFA schools. A copy of the cover letter was also sent to the school's business office. The PIR included institutional information, including a school's existing program identifiers (as well as any old FFEL identifiers) and Title IV school codes. The PIR also contained the school's legal address. School's were instructed to provide all changes to the information to the Department by September 30, 1997.

After this information has been received, the Department will assign each school a single identifier for its educational and administrative sites. The Department will notify a school of the date after which the new identifier will be used. For additional information, a school may access the web site, http://www.sii.ed.gov or call 202-708-4608.

REQUIREMENTS WHEN A SCHOOL CEASES TO BE AN ELIGIBLE INSTITUTION

Situations triggering loss of eligibility

A school loses its eligibility to participate in the SFA Programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668 or when the Department terminates the school under Subpart G of the General Provisions. Examples of situations that trigger loss of eligibility to participate include

- ◊ excessive student-loan cohort default rates,
- ◊ loss of accreditation,
- ◊ loss of state licensure,
- ◊ the PPA expires or is terminated by the Department,
- ◊ provisional certification is revoked by the Department,
- ◊ the school closes or stops providing educational instruction (for a reason other than a normal vacation period or as a result of a natural disaster), and
- ◊ the school files a petition for bankruptcy.

In general, a school that ceases to be eligible must notify the Institutional Participation and Oversight Service within 30 days of its loss of eligibility to participate in the SFA Programs. Requirements for notifying the Department are in 34 CFR 600.40.

Loss of accreditation

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any SFA Program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed Application to the Department.

Exceptions

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. (The school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.) Similarly, if a school voluntarily withdrew from accreditation during the last two years under a "show cause" or suspension order, the Department will not recertify unless the original order is rescinded by the accrediting agency.

Other exceptions:

- ◊ If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation; and

- ◊ If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

REQUIREMENTS WHEN A SCHOOL'S SFA PARTICIPATION ENDS

A school may stop participating in the SFA Programs voluntarily or it may be required to leave involuntarily. In either situation, there are required close-out procedures to follow.

Voluntary Withdrawal from SFA Participation

A school may voluntarily withdraw from participating in one or all of the SFA Programs. This might be for any number of reasons. For instance, a school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the SFA Programs, the school must notify the Department in writing at the general address for the Institutional Participation and Oversight Service (see page 3-203). For more information on these requirements and procedures, contact the appropriate case management team. Note: A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily *or* withdrew voluntarily while under a show cause or suspension order.

Withdrawing from the SFA Programs while under a termination order or other sanction—or to avoid being placed under them—is not considered voluntary withdrawal.

Involuntary Withdrawal from SFA Participation

Situations triggering loss of participation

A school's participation ends in the following circumstances:

- ◊ The school closes or stops providing instruction (for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students). Note: If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.
- ◊ The school loses its eligibility.
- ◊ The school's participation is terminated under Subpart G.
- ◊ The school's period of participation expires or the school's provisional certification is revoked.
- ◊ The school's PPA is terminated or expired.
- ◊ The school's cohort default rate exceeds the limit.

If a school ceases to provide educational instruction in all programs, the school should make arrangements for its students to complete their programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate case management team for guidance.

When participation ends

When a school's participation in an SFA Program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- ◊ *Within 45 days* of the effective ending date of participation, submit to the Department all financial reports, performance reports and other reports required by each appropriate SFA Program regulation, as well as a dated letter of engagement for an audit by an independent public accountant (IPA) of all SFA funds received under the program(s). The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- ◊ Report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate SFA Programs. (See Section 7.)

- ◊ Tell the Department how the school will provide for collecting any outstanding SFA Program student loans held by the school.

- ◊ Refund students' unearned tuition and fees. (See Section 4.)

Additional close-out procedures

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended SFA funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lender(s) any loan proceeds the school received but has not disbursed to students. If the school's participation in the State Student Incentive Grant (SSIG) Program ends, the school must inform the state and follow the state's instructions.

If a school's participation ends during a payment period (or enrollment period for FFEL Programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may

- ◊ use the SFA Program funds in its possession to satisfy unpaid Pell Grant or campus-based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended. (The school may request additional funds from the Department to meet these commitments.)

- ◊ satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL disbursements to the students or by crediting them to the students' accounts (if the first disbursement already was delivered or credited before the school's participation ended).

- ◊ use the SFA Program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended). The school may request additional funds from the Department to fulfill this commitment.

Contact the Department's appropriate regional office staff for guidance in fulfilling these requirements and responsibilities.

CASE MANAGEMENT

Case management is the Department's new approach to oversight of schools that participate in the SFA Programs. Case management is designed to provide the Department with a thorough picture of a school's overall compliance through the use of Case Teams.

Case Teams are composed of both regional and Washington, DC staff from the Department. Each team is assigned a portfolio of schools. The team is responsible for all oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, and recertification. Each school is assigned a Case Manager who leads the team in its evaluation of that school. The entire team will evaluate information on the school from a variety of sources to identify any compliance problems at the school. The team can then assess potential risk to the SFA Programs and determine appropriate action. Once appropriate actions are decided upon, the Case Manager assigned to the school ensures that the recommended actions are taken.

Utilizes information from many sources

Case Teams will collect and review information on a school from many sources including, but not limited to

- ◊ applications for recertification,
- ◊ financial and compliance audits,
- ◊ state agencies,
- ◊ accrediting agencies and licensing boards,
- ◊ student complaints, and
- ◊ Department databases.

Possible actions taken by the Department

Actions that a case team may decide to take include, but are not limited to

- ◊ initiating recertification or provisional certification,
- ◊ initiating a program review,
- ◊ establishing liabilities,
- ◊ developing a strategy for providing technical assistance,
- ◊ transferring the school to the reimbursement payment method (see Section 3),

- requiring a letter of credit, and
- referring the school for a enforcement action.

Actions do not always have to be negative. For example, the case team can recommend a school for participation in the Quality Assurance Program (see Section 6.)

The Department will use a system of risk analysis to identify schools with the greatest need for oversight. The Department will use the analysis of various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management is beneficial to schools also because a school can contact one team that will have all information on the school available in one place. (For a list of contact phone numbers for the regional case management teams, see Chapter 1.)

CORRECTIVE ACTIONS AND SANCTIONS

Sanctions

Sanctions include emergency actions, fines, limitations, suspensions, and terminations. The Department will sanction any school that

- violates the law or regulations governing the SFA Programs, its PPA, or any agreement made under the law or regulations; and/or
- substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. (For details on misrepresentation, see Section 8.)

Similarly, the Department may also sanction a third-party servicer that performs functions related to the SFA Programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers has violated any of the SFA Program requirements or has been suspended or debarred from program participation. (See Section 2.)

Actions due to program violations or misrepresentation

If it appears that a school has violated the SFA Program requirements, the Department may allow the school to respond to the problem and indicate how it will correct it. If this informal approach fails to correct the situation, or if the school has repeatedly violated the law or regulations, the Department may take emergency action, fine the school, or initiate a limitation, suspension or termination of SFA Program participation.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in Section 1. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

Emergency action

The Department may take emergency action to withhold SFA funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that

- ◊ the school is misusing federal funds,
- ◊ immediate action is necessary to stop this misuse, and
- ◊ the potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all SFA Programs and prohibits the school from disbursing SFA funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the proceeding, including any appeal, is concluded. The school is given an opportunity to "show cause" that the action is unwarranted.

Fine

The Department may fine a school up $25,000 for each statutory or regulatory violation. (The Department first notifies the school of its intent to fine so the school can, if it chooses, request a hearing.) If the school is proven guilty of the violation(s), it may appeal to the Department for a compromise on the amount of the fine(s) imposed at the hearing. In determining the amount owed by the school, the Department will consider the school's size and the seriousness of its violation or misrepresentation. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

Limitation

Under a limitation, a school agrees to abide by certain specific conditions or restrictions as it administers SFA funds; by doing so, it is allowed to continue participating in the SFA Programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension

A suspension removes a school from participation in the SFA Programs for a period not to exceed 60 days (unless a limitation or termination or proceeding has begun). A suspension action is used when a school can be expected to correct an SFA Program violation in a short time.

Termination

A termination ends a school's participation in the SFA Programs. A school that has violated the law or regulations governing the SFA Programs, its PPA, or any other agreement made under SFA regulations and was terminated from participating in the SFA Programs generally may not apply to be reinstated for 18 months. This waiting period is required even if the school changes ownership during that period. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

Corrective action; repaying funds

As part of any fine, limitation, suspension, or termination proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Possibility of reinstatement

As mentioned previously, a school requesting reinstatement in the SFA Programs must submit a fully completed Application to the Department and demonstrate that it meets the standards in Subpart B of the General Provisions (discussed in Section 1). As part of the reinstatement process, the school must show that the school has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, *or* approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 4

Federal Pell Grant Program

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CONTENTS

CHAPTER 4
FEDERAL PELL GRANT PROGRAM

INTRODUCTION **1**
Updates 1

SECTION 1: STUDENT ELIGIBILITY **3**
General Eligibility Requirements 3
Undergraduate Student 4
Incarcerated Students 5
The EFC and Federal Pell Grant Eligibility 5
Documenting the Student's Eligibility for Payment 6

SECTION 2: CALCULATING THE FEDERAL PELL GRANT **9**
Basic Concepts 9
Choosing a Formula 11
Determining Enrollment Status 14
Calculating the Cost of Attendance 19
Determining the Annual Award 23
Determining the Payment Periods 24
Calculating the Payment for a Payment Period 29
Checking Remaining Eligibility: Crossover Payment Periods 37
Summer Terms 38
Checking Remaining Eligibility: Transfer Students 41
Two Mathematical Notes 44

SECTION 3: SPECIAL PROGRAM CONSIDERATIONS **45**
Consortium Agreements (Between Eligible Schools) 45
Cooperative Education 48
Correspondence Study 49
Correspondence Study Combined with Regular Study 52
Foreign Study 53
Job Training (JTPA) Programs 53
Remedial Coursework 54
Terms with Clock Hours 55

SECTION 4: DISBURSING FEDERAL PELL GRANT AWARDS 57
School Certification and Student Eligibility 57
Methods of Disbursement 58
First Payment Options 59
Timing of Payments 59
Students Who Withdraw and Later Return 62

SECTION 5: RECALCULATING FEDERAL PELL GRANT AWARDS 65
Change in the EFC 65
Change in Enrollment Status 66
Change in Cost of Attendance 67

SECTION 6: OVERPAYMENTS AND OVERAWARDS 69
Overpayments 69
Financial Aid Transcripts 70
Reporting Overpayments Collected 71
Problems in Collecting Overpayments 71
Preventing Overawards 72

SECTION 7: REPORTING DISBURSEMENTS 75
Reporting Methods 76
Payment Data 77
Specific Payment Data Items 78
Reporting Deadlines 81
Processed Payment Data 83
Reporting Changes 85
Student Payment Summary 87
Administrative Cost Allowance 90
Requesting Funds 90

APPENDIX A: CALCULATION SUMMARIES BY FORMULA 91

APPENDIX B: DESCRIPTION OF THE STUDENT PAYMENT SUMMARY 101

APPENDIX C: STUDENTS APPEARING MORE THAN ONCE ON THE SPS 109

APPENDIX D: RECONCILING STUDENT PAYMENT DATA 113

Introduction

This chapter of *The Federal Student Financial Aid Handbook* describes how a school calculates and pays Federal Pell Grant (Pell) awards to eligible students and how it reports those payments to the U.S. Department of Education (the Department).

The discussion covers what the school must do to process an eligible student's Pell award after the school has received documentation of the student's eligibility. This chapter covers the basic steps in the Pell award process at the school: confirming student eligibility, calculating the award, making a disbursement, recalculating the award, collecting overpayments, and reporting expenditures to the Department.

UPDATES

- The Department expects that the maximum award will increase to $3,000 for 1998-99. Because final award levels had not been authorized at the time this Handbook went to print, we did not include Payment and Disbursement Schedules. Additionally, the payment and calculation examples in this chapter are still based on the 1997-98 award maximum—$2,700. The maximum award and maximum Expected Family Contribution (EFC) cutoff for Pell eligibility have been left at $2,700 and 2,500, respectively, pending passage of legislation authorizing FY 98 funding levels.

- The Department published a notice dated September 19. 1997 announcing deadline dates by which schools will be required to use designated electronic processes in order to meet administrative capability requirements for participation in the SFA programs. The designated electronic processes covered in this notice that pertain to the Pell Grant Program are a school's participation in the Title IV Wide Area Network (TIV WAN) and a school's receipt of Institutional Student Information Reports (ISIRs). At the time this Handbook went to print, the Department was developing a Dear Colleague letter that will provide additional information.

- During the 1998-99 award year, schools can report Pell payments electronically through the Electronic Data Exchange (EDE, on magnetic tape or cartridge through the Recipient Data Exchange (RDE), or on diskette through the Floppy Disk Data Exchange (FDDE). Schools should be aware that 1998-99 is the final year that they can use the FDDE to report Pell payments. Beginning with the 1999-2000 award year, which begins on July 1, 1999, the FDDE will be eliminated.

- The ED Payment Management System (ED/PMS) is scheduled to be completely replaced by the Education Central Automated Processing System (EDCAPS) in the first quarter of the 1998 calendar year. EDCAPS will contain the new Grants Administration and Payments System (GAPS). Section 7 of this chapter (Reporting Disbursements) covers the new EDCAPS/GAPS.

- The Federal Pell Grant Recipient and Financial Management System (PGRFMS) for reporting Pell payments is being replaced by the new Recipient and Financial Management System (RFMS) for the 1998-99 award year.

section 1 Student Eligibility

Unlike the student's eligibility for the campus-based programs (see chapters 5 through 8), a student's eligibility for Pell does not depend on the availability of funds at the school. The Department provides funds to each participating school to pay eligible students based on the Payment Data the school submits to the Department. (See Section 7 of this chapter for more on the funding process.)

Because the Department pays Pell awards to all eligible students, the school is not responsible for selecting recipients. However, the school must ensure that each recipient meets the eligibility requirements for the Federal Pell Grant Program, as discussed below, and that each eligible student is paid the amount for which he or she is eligible.

GENERAL ELIGIBILITY REQUIREMENTS

Most of the student eligibility requirements for the Federal Pell Grant Program are common to all the Student Financial Assistance (SFA) Programs. General SFA eligibility requirements are discussed in greater detail in Chapter 2, Section 1. Briefly, for a student to be eligible to receive assistance from the SFA Programs, he or she must

- ◊ be either a U.S. citizen or an eligible noncitizen;
- ◊ have a high school diploma or its recognized equivalent (such as a General Education Development [GED] certificate). (See Chapter 2, Section 1 for a complete description of alternatives);
- ◊ be meeting satisfactory academic progress standards in his or her course of study; and
- ◊ file a Statement of Educational Purpose and a Certification Statement on Overpayments and Defaults (see Chapter 2, Section 1).

A student is **not** eligible for any SFA funds if he or she

- ◊ is enrolled in an elementary or secondary school,
- ◊ is in default on an SFA loan or owes a repayment or is liable for an overpayment on an SFA grant, or
- ◊ has borrowed in excess of the annual or aggregate loan limits for the SFA loan programs.

In most cases, if a student is a member of a religious order, he or she is eligible **only** for unsubsidized loans (see Chapter 2, Section 1).

Financial aid history

If a student transfers from one postsecondary school to another, the new school must get a financial aid history for the student. The school may use the National Student Loan Data System (NSLDS) to receive the financial aid history, or may request a financial aid transcript from the previous school (see Chapter 2, Section 2). However, there are some limits on the use of NSLDS for midyear transfer students (see Section 2).

UNDERGRADUATE STUDENT

A student must be an undergraduate to receive a Pell. The regulations define an undergraduate as one who is enrolled in an undergraduate course of study and who has not earned a baccalaureate degree or its equivalent or a first professional degree.[1] ("Professional degree" means a degree offered by professional programs such as pharmacy, dentistry, or veterinary programs.)

Length of undergraduate study

An undergraduate course of study under this definition is one that usually does not exceed 4 academic years or is a program of 4 to 5 academic years designed to lead to a baccalaureate or first professional degree. If the program is longer than 5 years (for example, a 6-year pharmacy program), then students enrolled in that program are considered undergraduate students only for the first 4 academic years of the program.

Foreign, unaccredited degrees

It does not matter if the baccalaureate or professional degree is from an unaccredited or foreign school, or is not accepted or recognized by the school at which the student is enrolled. A student who has earned such a degree is still ineligible for Pell.

---

[1] Occasionally, a student will complete the requirements for a bachelor's degree but will continue taking undergraduate courses without accepting the degree. The school must decide at what point it considers the student to have completed the baccalaureate course of study—when the student completes the requirements for the degree, or when the student actually receives the degree. If the school considers the student to have completed the baccalaureate course of study, the student is no longer eligible to receive a Pell.

Note that a student who has already received an associate degree, but who enrolls in another undergraduate program, would continue to be considered an undergraduate student until he or she has completed the academic curriculum requirements for a first bachelor's degree. (This is true for **any** student who has received a certificate or diploma below the baccalaureate level.)

Degrees below the baccalaureate level

If a student who is an undergraduate incorrectly reported on the *Free Application for Federal Student Aid* (FAFSA) that he or she will be a graduate student or has a bachelor's degree, this information **must** be corrected. Because the application information indicated that the student was not an undergraduate, the Department's records will show that he or she is ineligible for Pell. If the application information is not corrected, **the school will be unable to receive Pell funds** from the Department for that student.

INCARCERATED STUDENTS

The Violent Crime Control and Law Enforcement Act of 1994 amended the HEA to provide that students incarcerated in federal and state institutions are not eligible for Pells. However, students incarcerated in local penal institutions may still receive Pells. Students incarcerated by jurisdictions defined as a state in the law (such as the District of Columbia) are considered to be incarcerated in a state institution and are not eligible for Pell. A student is not considered incarcerated if he or she is in a halfway house or home detention, or is sentenced to serve only on weekends.

Federal, state prisoners not eligible— "Dear Colleague" Letter P-94-7

Allowable costs of attendance for incarcerated students are limited to tuition and fees and only those books and supplies related to the student's course of study.

THE EFC AND FEDERAL PELL GRANT ELIGIBILITY

The Expected Family Contribution (EFC) formula is the standard formula used in determining financial need for the SFA Programs. The formula produces an EFC number.

The less the student and family can contribute to education costs, the greater the Pell the student may receive. Thus, the neediest students will have an EFC of 0 and may be eligible for the maximum Pell award if their cost of education (also known as cost of attendance) will be at least equal to the maximum amount and if they will be attending full time for a full academic year.[2]

[2] The maximum Pell Grant award had not been determined at the time this Handbook went to print.

1997-98 Scheduled Awards based on a cost of attendance of at least $2,700.
(Example only—do not use to make awards)

EFC	0	300	600	900	1200	1500
Award	2700	2450	2150	1850	1550	1250

As the EFC increases, the Scheduled Award decreases.

As the EFC increases, the amount of the award decreases; after the maximum EFC eligibility, the award becomes 0.

The EFC is computed by the Central Processing System (CPS) and is based on the information the student reported on the FAFSA. The EFC is included along with the student's application information on a *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR). (For more information, see *A Guide to 1998-99 SARs and ISIRs*, which will be available in early 1998.)

Professional judgment

The financial aid administrator, through professional judgment, may adjust one or more of the data elements used to calculate the EFC. The adjustment must be based on a student's individual circumstances and must be documented in the student's file. Note that aid administrators may not adjust the EFC number or the formula. If the financial aid administrator makes an adjustment for the Federal Pell Grant Program, the same adjustment must be used when awarding campus-based aid, subsidized Federal Stafford Loans, and subsidized Direct Stafford Loans. For more information on adjusting the EFC, see the 1998-99 *Counselor's Handbook for Postsecondary Schools.*

EFC change affecting award reprocessed through CPS

Note that any change in the EFC that results in a change in the student's Pell award must be submitted through the CPS to establish the student's eligibility for Pell payment. Resubmission is not a requirement for EFC changes that do not affect the Pell award; however, if the school does not submit these changes for reprocessing, it must be sure that the EFC it submits on its payment record to the Department for the Federal Pell Grant Program matches the EFC calculated by the CPS. A school is never required to resubmit corrections or adjustments for recalculation of the EFC for the campus-based programs, the Federal Family Education Loan Program, or the Direct Loan Program.

DOCUMENTING THE STUDENT'S ELIGIBILITY FOR PAYMENT

Output documents

The SAR is a paper document sent to the student by the application processor. An ISIR is a computer-generated electronic record sent to a school by the CPS. These output documents (SARs and ISIRs) contain the student's application information, the EFC, and the results of the database matches. To pay a student his or her Pell award, a school must have

received a valid output document containing an eligible nine-month EFC while the student is still enrolled and eligible. Once it is received, assuming all other eligibility requirements are met, the school **must** pay the student.

All applicants who apply through the mail, through FAFSA on the Web or through FAFSA Express, receive a SAR in the mail from the CPS. Students who apply through EDE receive a one part SAR, called a SAR Information Acknowledgement. The school is not required to provide these students with a copy of the ISIR it received from the CPS. For purposes of documenting the student's eligibility for payment, the SAR Information Acknowledgement is the same as a two part SAR: A school **must** pay an eligible student who submits a valid SAR Information Acknowledgement.

Signature requirements

A valid output document is defined as one where all the information used to calculate the EFC is complete and accurate. The student is not required to sign an output document. Note that the student is still required to sign the statement on the FAFSA certifying that the information provided is correct. (See the 1998-99 *Counselor's Handbook for Postsecondary Schools*)

34 CFR 668.24(d)(3)

The school may store an electronic ISIR in its electronic format, rather than printing and storing paper. Schools must be careful to store the electronic record exactly as received from the CPS. If the student applies electronically through his or her school, the school must be sure that it keeps the signed FAFSA. In addition, the school must keep signed documentation of any corrections submitted electronically. The school may keep the student's SAR or the signed FAFSA and correction documentation for students applying electronically in either the original hard copy format or an imaged format from which it can produce an accurate, legible copy of the original (see Chapter 3, Section 7).

August 31/ last day of enrollment deadline

The school must receive the valid SAR or ISIR no later than August 31 following the end of the award year, or the student's last day of enrollment, whichever comes first. As mentioned above, the student must still be enrolled and eligible for payment at the time the SAR or ISIR is received. If the student leaves school or completes the program and the school does not have a valid SAR or ISIR, the student is not eligible for a Pell.

Verification extension

The deadline above is extended for students undergoing verification. The verification extension allows the school to accept a student's revised SAR or ISIR up to **60 days after** the student's last day of enrollment. However, the extension cannot go beyond the August 31 deadline mentioned above. The school must have **already** received a SAR or ISIR with an eligible EFC while the student was enrolled and eligible for payment.

section 2 Calculating the Federal Pell Grant

In this section, we will review the basic steps in calculating a Pell award. These steps, in effect, adjust the Pell award to take into account the student's cost of attendance (COA) for the academic year, the student's enrollment status, the ability to contribute to his or her education (EFC), the amount of coursework taken in the award year, and the length of the student's enrollment during the academic year.

Pell calculations for most programs can be performed by following the steps in this section. However, there are some situations that require further adjustments. These situations are discussed in Section 3, "Special Program Considerations." Check that section to see if these special considerations apply to any of the programs at your school.

See Section 3 for special considerations

BASIC CONCEPTS

A primary concept in the Federal Pell Grant Program is the "Scheduled Award," which is the amount a student receives during an academic year for a given COA and EFC, assuming the student is enrolled **full time** for a **full** academic year. For example, a student with a COA of $6,000 for a full academic year and a nine-month EFC of 0 would have a Scheduled Award of $2,700 (the maximum for 1997-98). A student will receive less than a full Scheduled Award if he or she is enrolled less than full time or is enrolled for less than a full academic year. For instance, if a student attends two semesters as a half-time student at a semester school, the student would receive half a Scheduled Award. Or, if the student enrolled full time in a program late in the award year and only completed half of an academic year in that program, he or she would receive no more than half of a Scheduled Award.

Scheduled Award

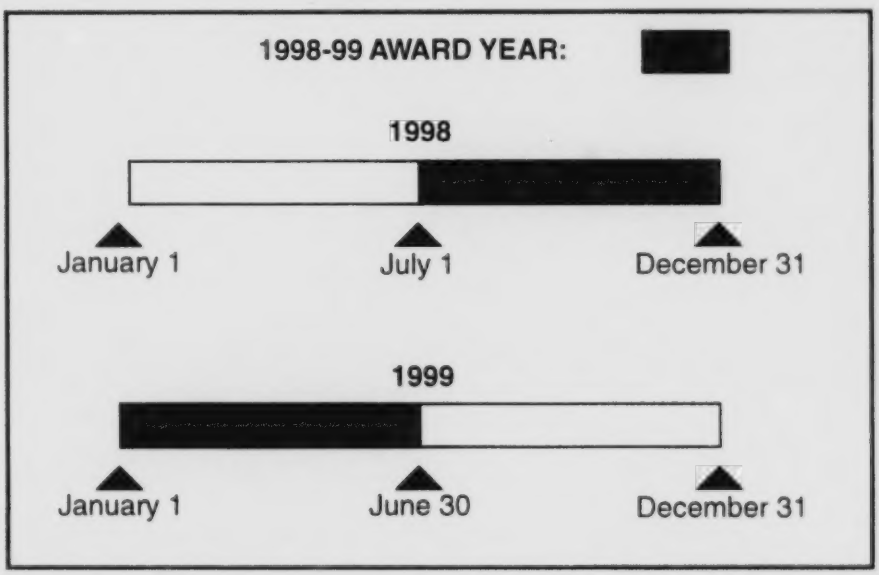
The concept of the Scheduled Award has always been important because it has limited the student to a maximum payment for an award year. The Scheduled Award cannot be exceeded, even if the student transfers to another school or attends for more than one academic year in the award year (for example, by attending a summer session).

Annual award

The annual award is the maximum amount (from the appropriate Payment or Disbursement Schedule) a student would receive during a full academic year for a given enrollment status, EFC, and COA. Note that for a full-time student, the annual award will be the same as the Scheduled Award.

Award year

The award year begins on July 1 of one year and ends on June 30 of the next year.



As already noted, a student cannot be paid more than one Scheduled Award for an award year. The regulations provide that students may receive up to a second Scheduled Award during a single award year if the Department determines that sufficient funds are available. There is no funding for payment of a second Scheduled Award for 1998-99; therefore, students will not be able to receive more than one Scheduled Award for the 1998-99 award year.

Academic year

The academic year is used to measure the amount of coursework the student will complete during the award year. The school must define the academic year for each program of study; once it has defined the academic year for that program, it must use that definition for all SFA purposes. A school's defined academic year must contain at least 30 weeks of instructional time; within the weeks of the academic year, a full-time student must be expected to complete at least 24 semester or trimester hours or 36 quarter hours at a school measuring program length in credit hours, or at least 900 clock hours at a school measuring program length in clock hours. The General Provisions regulations provide a definition of academic year and allow schools to apply for a waiver of the 30 week minimum. (See Chapter 3, Section 1 for more information on the definition of academic year.)

Note that for the Pell calculations, the school will need to determine how many weeks of instructional time are in the program or academic year, or in each term if the school uses terms. In some cases, the weeks of instructional time will not be the same as the number of calendar weeks. Chapter 3 explains how to determine weeks of instructional time. A school should be careful not to use calendar weeks when it should be using weeks of instructional time.

Calendar weeks vs. weeks of instructional time

Depending on the academic nature of the programs involved, a school may define an academic year differently for different programs of study. For instance, it may set an academic year of 900 clock hours and 30 weeks in one program and 1,200 clock hours and 40 weeks in another. The school may even use a different academic year for an evening program, as opposed to a day version of the same program, as long as each academic year meets the minimum requirements established for an academic year. If the school establishes separate versions of a program, with different academic years, but allows individual students to take courses in both versions, the school must be able to determine which program the student is actually enrolled in.

Different academic year for different programs

Term-based schools may have either standard terms or nonstandard terms. **Standard terms** are semesters, trimesters, or quarters, as these terms are traditionally used. In traditional usage, an individual semester or trimester provides approximately 15 weeks of instruction and full-time is defined as at least 12 semester or trimester hours; the program's academic calendar generally consists of three terms, one each in fall, spring, and summer. In traditional usage of the term quarter, an individual quarter provides approximately 10 to 12 weeks of instruction and full-time is defined as at least 12 quarter hours; the program's academic calendar generally includes three quarters in the fall, winter, and spring and often a summer quarter as well. Any other type of term is a **nonstandard term.** Nonstandard term has sometimes been used to refer only to terms of unequal length, but under this definition terms of equal length may be nonstandard terms.

Standard term and nonstandard term

CHOOSING A FORMULA

The regulations specify five different formulas for calculating Pells; the formula the school uses depends on the type of program. However, each formula has the same basic steps. Once the school chooses a formula, the school must use that same formula for all students in the same program of study for the entire award year.

34 CFR 690.63(a)

Formula 4 or 5

Three of the formulas (Formulas 1, 2, and 3) are used for credit-hour, term-based programs. Of the remaining two formulas, Formula 4 is used for all clock-hour programs and for nonterm credit-hour programs, and Formula 5 is used for students enrolled only in correspondence courses (not including residential components of correspondence programs). Calculations for correspondence programs are discussed separately in Section 3 of this chapter.

Formula 3

A school can use Formula 3 to calculate Pells for any credit-hour, term-based program. However, if the program meets certain requirements, Formula 1 or 2 may also be used. If the program meets the requirements for more than one formula, the school may choose which formula to use.

Formula 1 or 2

To qualify for Formula 1 or 2, the program must

- ◊ be offered in semesters, trimesters, or quarters (standard terms);
- ◊ use an academic calendar that includes two semesters or trimesters or three quarters;
- ◊ not have overlapping terms; and
- ◊ define full-time enrollment for each term as at least 12 credit hours.

If the program provides at least the statutory minimum of weeks for an academic year (30 weeks of instructional time, unless the school has received a waiver from the Department) in the fall through spring terms, Formula 1 may be used. If it does not provide this minimum in the fall through spring terms, Formula 2 may be used. Note that in both cases the school may decide to use Formula 3.

Combining terms

A school may combine terms to allow a program to qualify for Formula 1 or 2. For example, a school with several summer terms for which full-time enrollment is less than 12 credit hours may combine these terms into a single term for which full-time enrollment is 12 credit hours so that Pells for students in the program can be calculated under Formula 1. A school may also combine a short term with a semester in order to have two semesters as required for Formulas 1 and 2, as the following example shows.

In addition to programs using standard semesters, Hart University offers a separate degree program in education with a short 4-week term between two 15-week terms. The terms do not overlap.

15 weeks	4 weeks	15 weeks

Hart has defined the academic year for this program as 24 semester hours and 34 weeks of instructional time. Hart could combine the short term with one of the standard terms and calculate Pells using Formula 1 (assuming that full-time enrollment is at least 12 semester hours per term):

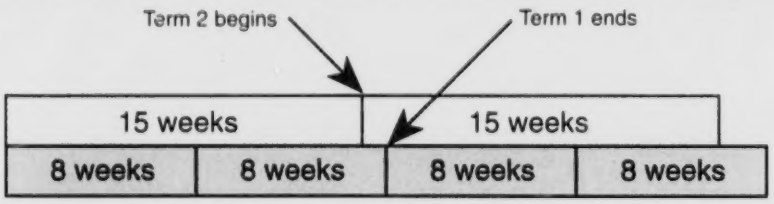
Term 1		Term 2
15 weeks	4 weeks	15 weeks

Hart may also choose not to combine the terms. In this case, the program would have a nonstandard term (the four week term) and would therefore not qualify for Formula 1. Hart would then be required to use Formula 3 to calculate Pells for students in this program.

Calendar changes

Because the academic calendar for a program must fall within specific limits for the school to be able to use Formula 1 or 2, if the calendar for the program changes, the school may have to check again to see if it can still use Formula 1 or 2 for the program.

Hart University decides to expand one of the programs it offers in standard semesters by also offering the coursework in four 8-week terms. Previously, Hart could calculate Pells for students in the program using Formula 1. Suppose Hart combines two 8-week terms with each semester, so the program still has two terms. The school now must use Formula 3, because the terms overlap:



The school must use Formula 3 even for students enrolled only in the semesters, because the program as a whole no longer qualifies for Formula 1.

The school may instead consider the program offered in 8-week terms to be a separate program, in which case it can still calculate Pells for students enrolled in the semester program using Formula 1. Hart would then calculate Pells for students enrolled in the four-term program using Formula 3. However, if it allows a student to enroll in both types of terms, it must have some way of determining which program the student is actually enrolled in.

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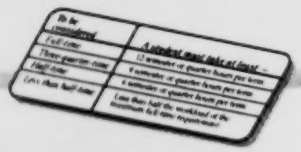
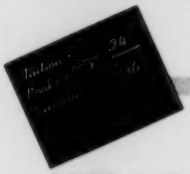
No matter what formula is used, there are five basic steps to calculating a Pell award:

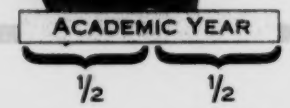


STEP 1: Determine Enrollment Status

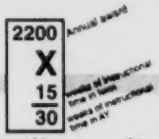


STEP 2: Calculate Cost of Attendance

STEP 3: Determine Annual Award



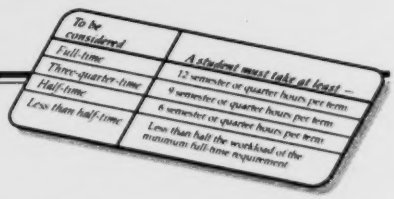
STEP 4: Determine Payment Periods



STEP 5: Calculate Payment for a Payment Period

We will now discuss each of these steps in more detail. Appendix A contains step-by-step summaries for each of the five formulas.

DETERMINING ENROLLMENT STATUS


To be considered
A student must take at least ...
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the minimum full-time requirement

The student's enrollment status is based on the number of credit or clock hours for which the student enrolls. It determines which cost components are used to calculate the student's Pell COA and, for some programs, establishes which Payment or Disbursement Schedule is used to determine the student's annual award.

Enrollment status change during year

If a student's enrollment status changes during the year, the school may have to recalculate the student's Pell payment based on the student's new enrollment status. Section 5 of this chapter explains when a school is required to recalculate due to a change in enrollment status.

For credit-hour programs with terms, the school must determine whether the student is enrolled full time, three-quarter time, half time, or less than half time. This allows the school to determine which Payment or Disbursement Schedule it needs to use. For clock-hour programs and for credit-hour programs without terms, the school only needs to determine if the student is enrolled at least half time or less than half time, so that it can calculate the COA correctly.

Enrollment Status Minimum Requirements

Standard Term, Credit-Hour Programs

To be considered	A student must take at least
Full time	12 credit hours per term[1]
Three-quarter time	9 credit hours per term[1]
Half time	6 credit hours per term[1]
Less than half time	Less than half the workload of the minimum full-time requirement

For standard term-based programs, if a school's financial aid office establishes full-time status as greater than 12 credit hours, the financial aid office may still define a three-quarter-time enrollment status as 9 credit hours and a half-time enrollment status as 6 credit hours.

[1]The school must use appropriate credit hours for the term, for example, semester hours for semesters, quarter hours for quarters.

Clock-Hour Programs or Nonstandard-Term or Nonterm Credit-Hour Programs

To be considered	A student must take at least
Full time	24 semester hours, 24 trimester hours, or 36 quarter hours per academic year, or prorated equivalent for program of less than an academic year *or* 24 clock hours per week
Less than half time	Less than half the workload of the minimum full-time requirement

School defines full-time enrollment

If the school has standard terms (i.e., semesters, trimesters, or quarters), it may establish its own standards for determining enrollment status for each of its academic programs, provided its standards meet the minimum requirements defined in the regulations, as shown in the chart above. Note that the school's academic standard may differ from the enrollment standard used by the financial aid office for SFA purposes. For example, the school may define full time as six hours during the summer; however, the financial aid office uses 12 hours as full-time for all terms including the summer term. The school must apply its standards consistently to all students enrolled in the same program of study, for all SFA purposes.

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Enrollment status for nonstandard terms—34 CFR 690.63(d)(1)(ii)

If a school's academic calendar contains nonstandard terms, the school must determine the student's enrollment status for each nonstandard term. To determine enrollment status for a nonstandard term, the school must first determine the number of credit hours required for full-time enrollment status using the following formula:

$$\text{Credit hours in the academic year} \times \frac{\text{Weeks of instructional time in the nonstandard term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting number is not a whole number, it is rounded up to the next whole number. After the school has determined the number of credit hours required for full-time enrollment, the school can then determine the less-than-full-time status for the nonstandard term using the following formula:

$$\text{Credit hours student takes in the nonstandard term} \div \text{Credit hours required for full-time status in the nonstandard term}$$

The resulting fraction is then matched with the appropriate less-than-full-time status classification. The fraction must equal or exceed the enrollment status classification. For example, two-thirds would correspond to a half-time enrollment status. The following examples illustrate how the enrollment status for a nonstandard term is determined.

Nonstandard term examples

Anner enrolls in a two year program at Bylsma Conservatory. Bylsma Conservatory's academic calendar consists of four terms, each of which provides 8 weeks of instructional time. The school has defined the academic year for Anner's program as 40 quarter hours and 32 weeks of instructional time. Anner enrolls for 6 quarter hours in the first term and 10 quarter hours in the remaining three terms.

Bylsma determines the number of credit hours required for full-time enrollment in the term as follows:

$$40 \text{ quarter hours} \times \frac{8 \text{ weeks instructional time in term}}{32 \text{ weeks instructional time in academic year}} = 10 \text{ quarter hours}$$

Therefore, a student must complete 10 quarter hours each term to be a full-time student. For the first term, Bylsma must determine Anner's enrollment status as follows:

$$6 \text{ quarter hours} \div 10 \text{ quarter hours} = .6$$

Because .6 is less than three-quarters (.75) but more than one-half (.5), Anner's enrollment status in the first term is half time. Anner is enrolled full time (10 hours) in the remaining terms.

Owen enrolls in the education program at Hart University that has a short 4-week term between two 15-week terms. Hart does not combine the 4-week term with one of the longer terms for purposes of the Pell calculation. The academic year for the program is 34 weeks of instructional time and 24 semester hours. Owen enrolls for 6 hours in the first and third terms and 3 hours in the second term.

Hart must determine the number of credit hours required for full-time enrollment in the first and third term as follows:

$$24 \text{ semester hours} \times \frac{15 \text{ weeks instructional time in term}}{34 \text{ weeks instructional time in academic year}} = 10.58$$

A student must enroll in 11 semester hours (rounded up from 10.58) in the first and third terms to be full-time. The requirement for full-time enrollment for the second term is determined as follows:

$$24 \text{ semester hours} \times \frac{4 \text{ weeks instructional time in term}}{34 \text{ weeks instructional time in academic year}} = 2.82$$

A student must enroll in 3 semester hours (rounded up from 2.82) in the second term to be full-time.

Note that Owen is enrolled full-time in the second term. To determine Owen's enrollment status for the other two terms, the school must compare the number of hours he is enrolled with the number required for full-time enrollment:

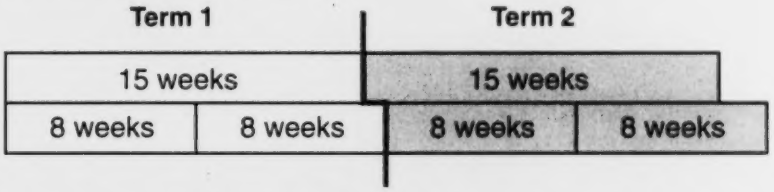
$$6 \text{ semester hours} \div 11 \text{ semester hours} = .54$$

Because .54 is less than three-quarters (.75) and greater than one-half (.5), Owen is enrolled half-time in the first and third terms.

If the school has combined two or more terms into a single term for purposes of the Pell calculation, the student's enrollment status is based on the combined number of hours the student is enrolled in for all the component terms of the combined term. Note that if the student later does not begin attendance in one of the parts of the combined term, the school must recalculate the student's award (see Section 5 for more on recalculations).

Combined term example

Eddy enrolls in the program that Hart University offers in both 15-week semesters and 8-week terms. Hart has combined two 8-week terms with each semester; each of the combined terms provides 16 weeks of instructional time:

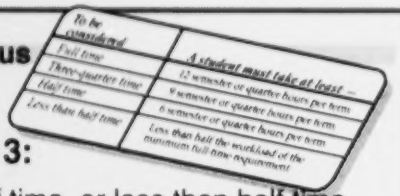


Hart continues to define the academic year for Eddy's program as 24 semester hours and 30 weeks of instructional time, as it did before adding the 8-week terms. In addition, because the combined terms can still be considered semesters, the requirement for full-time enrollment in each term is 12 semester hours.

In the first term, Eddy enrolls for 4 semester hours in the 15-week component of the term and 3 semester hours in each of the 8-week components. Therefore, he is enrolled for a total of 10 semester hours in the first term, and his enrollment status is three-quarter time. In the second term, he enrolls for 12 semester hours in the 15-week component, and no hours in either of the 8-week components. Because he is enrolled for 12 semester hours total in this second term, his enrollment status for the second term is full time.

Step 1 summary by formula

STEP 1: Determine Enrollment Status


To be considered
A student must take at least —
Full time
12 semester or quarter hours per term
Three-quarter time
9 semester or quarter hours per term
Half time
6 semester or quarter hours per term
Less than half time
Less than half the workload of the minimum full-time requirement

Formula 1, Formula 2, Formula 3:

Full time, three-quarter time, half time, or less than half time

Formula 4:

At least half time or less than half time

The components used to calculate a student's Pell COA are the same as those used to calculate the COA for the other SFA Programs. (See Section 3 of Chapter 2 for a list of these components.)

Cost for full time for full academic year

Although schools must use the same components for calculating a student's cost for the Federal Pell Grant Program as for the other SFA Programs, the Pell COA is always based on costs for a **full-time student for a full academic year**. That is, the amount of each component must always be a full-time, full academic year cost.

Less than half time

If the student is enrolled less than half time, the aid administrator can include in the Pell COA only those cost components allowable for less-than-half-time enrollment. (See Chapter 2 for more information, and for other restrictions on COA components.)

For students who are less than half time, COA can include only:

- ◊ tuition and fees;
- ◊ an allowance for books and supplies;
- ◊ transportation (but not miscellaneous expenses); and
- ◊ an allowance for dependent care expenses

The major difference between the COA for Pell and for other SFA Programs is that under Pell, costs for programs or enrollment periods longer or shorter than an academic year must be prorated so that they apply to one full academic year.[1] This is true for both components of the academic year definition, the number of weeks and the number of clock/credit hours: If the program or period of enrollment differs from the defined academic year in either component, the costs must be prorated to determine the Pell COA.

Two proration methods

Schools may choose between two proration methods. A school may either prorate the entire cost using one fraction, or split the COA into credit or clock hour costs and week costs, and prorate the two types of costs separately. A school may use whichever method it prefers.

[1] Note that in many cases prorating the COA will not affect the amount of Pell the student receives. However, you must enter accurate amounts when reporting disbursements (see Section 7).

Single fraction method

To prorate the COA by one fraction, the school must compare two fractions and multiply the COA by the lesser of the two. There is one fraction for each component of the academic year definition. One fraction is calculated by dividing the number of credit or clock hours in the program's academic year by the hours for which the costs apply; the other by dividing the number of weeks in the program's academic year by the weeks for which the costs apply:

$$\frac{\text{Credit/clock hours in program's definition of academic year}}{\text{Credit/clock hours for which costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time for which costs apply}}$$

The COA is multiplied by the lesser of these two fractions to determine the student's Pell COA. This Pell COA must be used when determining the amount of the student's annual award. Note that in some cases the prorated COA calculated by this method will be the same as the original, nonprorated COA: If for one of the components of the academic year the program or period of enrollment for which costs apply is the same as the academic year, one of the fractions will be equal to one.

Following are some examples showing how to determine full-time, full-year costs.

Example 1

Woodhouse College has fall and spring semesters, each of which provides 14 weeks of instructional time. Thus, the two semesters provide 28 weeks of instructional time, shorter than the statutory requirement for an academic year. Woodhouse has defined the academic year as 24 semester hours and 30 weeks of instructional time. The average costs for a full-time student attending both semesters are as follows:

Tuition and Fees	$2,600
Room and Board	2,700
Books, Supplies, Transportation, Miscellaneous Expenses	880
Loan Fees	100
TOTAL	$6,280

Because the two semesters do not provide a full 30 weeks of instructional time, the cost for a full-time student to attend both semesters must be prorated to determine a full academic year COA.

Woodhouse compares the two fractions:

$$\frac{\text{24 semester hours in academic year definition}}{\text{24 semester hours in fall through spring terms}} \qquad \frac{\text{30 weeks instructional time in academic year definition}}{\text{28 weeks instructional time in fall through spring terms}}$$

Because the credit hour fraction (24/24) is the lesser of the two, it would be used to prorate the cost; since it is equal to 1 the Pell COA for the program is the same as the non-prorated COA: $6,280.

Example 2

Bylsma Conservatory offers a two year program; the academic calendar for this program consists of four 8-week terms. The school has defined the academic year for this program as 40 quarter hours and 32 weeks of instructional time. Bylsma charges the student for the entire program when he or she begins. The average cost for a full-time student for the entire program is:

Tuition and Fees	$8,900
Room and Board	8,600
Books, Supplies, Transportation Miscellaneous Expenses	4,540
Loan Fees	240
TOTAL	$22,280

Because the cost is for longer than an academic year, Bylsma must determine the cost for an academic year by prorating the full cost. The school compares the two fractions:

$$\frac{\text{40 quarter hours in academic year}}{\text{80 quarter hours in program}} \qquad \frac{\text{32 weeks instructional time in academic year}}{\text{64 weeks instructional time in program}}$$

The credit-hour fraction and the week fraction are both equal to one-half. Therefore, the school may prorate the entire cost using either fraction. Multiplying $22,280 by one-half, the school ends up with a prorated cost of $11,140.

Example 3

Miranda has enrolled as a less-than-half-time student in a 650 clock hour, 28 week program at Sarven Technical Institute. Sarven has defined the academic year for the program as 900 clock hours and 30 weeks of instructional time. The average costs for the entire program are as follows:

Tuition and Fees	$1,800
Room and Board	2,500
Books and Supplies	100
Transportation	100
Miscellaneous Expenses	200
TOTAL	$4,700

Because the program is shorter than an academic year in length, the costs for the program must be prorated to determine the costs for an academic year. Also, because Miranda is attending less than half time, the COA cannot include all components. The cost using only the components allowed for a less-than-half-time student (tuition and fees, books and supplies, and transportation) is $2,000. Sarven compares the two fractions:

$$\frac{\text{900 clock hours in academic year}}{\text{650 clock hours in program}} \qquad \frac{\text{30 weeks instructional time in academic year}}{\text{28 weeks instructional time in program}}$$

Of the two fractions, the smaller is $\frac{30}{28}$

Sarven multiplies the full cost (using only the components allowed for a less-than-half-time student) by this fraction:

$$\$2{,}000 \times \frac{\text{30 weeks instructional time in academic year}}{\text{28 weeks instructional time in program}} = \$2{,}143$$

Therefore, Miranda's Pell COA is $2,143.

Split proration method

As mentioned earlier, the school may split the COA into two parts and prorate the two parts separately, if it chooses. The school multiplies costs associated with credit or clock hours (tuition and fees, books and supplies, loan fees) by the credit or clock hour fraction discussed previously, and multiplies costs associated with weeks of instructional time (room and board, miscellaneous expenses, disability expenses, transportation, dependent care, study abroad, reasonable costs associated with employment as part of a cooperative education program) by the week fraction discussed previously. The student's Pell COA is the sum of the two types of prorated costs.

Actual vs. average cost

While schools have the option of determining actual costs for individual students, most schools prefer to determine the COA by using an average cost for a group of similar students. (For example, a school may have different charges for different academic programs or different charges for in-state vs. out-of-state students.)

STEP 2: Calculate Pell COA

Formula 1:

Full-time, full academic-year costs

Formula 2:

Full-time, full academic-year costs

Cost for fall through spring terms prorated. If fall through spring terms provide the same number of credit hours as are in the academic year definition, prorated COA is the same as nonprorated COA.

Formula 3 and Formula 4:

Full-time, full academic-year costs

Cost for program or period not equal to academic year prorated. Two fractions compared:

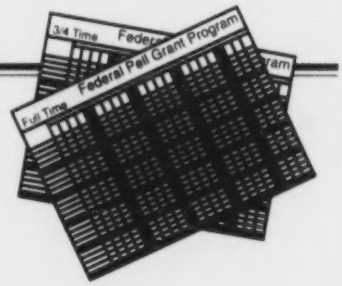
$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

Step 2 summary by formula

DETERMINING THE ANNUAL AWARD

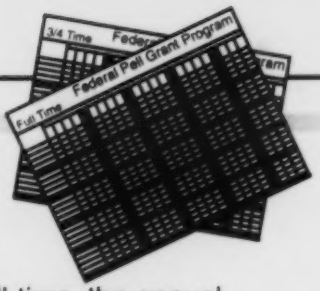


Once the school has figured the student's COA, the financial aid administrator can use the Payment Schedule or appropriate part-time Disbursement Schedule to look up the student's annual award. As mentioned earlier, the annual award is the maximum amount a student would receive during a full academic year for a given enrollment status, EFC, and COA. For students enrolled in clock-hour or nonterm credit-hour programs, the annual award is always determined from the full-time Payment Schedule, even if the student is attending less than half time.

Please remember that you do not have the discretion to refuse to pay an eligible part-time student.

Step 3 summary by formula

STEP 3: Determine Annual Award



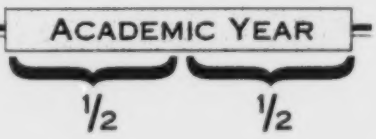
Formula 1, Formula 2, Formula 3:

If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Formula 4:

Always taken from full-time Payment Schedule (equal to Scheduled Award)

DETERMINING THE PAYMENT PERIODS



The program's academic year must be divided into payment periods. Pells must be paid in installments over the academic year to help meet the student's cost in each payment period. The payment period determines when Pell funds are disbursed and the exact amount to be disbursed. The cash management regulations published on 11/29/96 provide a common definition of payment period for all the programs, which replaces the definition in the Pell regulations. We will note the changes below; these changes became effective for payment periods beginning on or after July 1, 1997.

Credit-hour term programs

For credit-hour term programs, the payment period is the term. Under the new definition of payment period, the payment period for a **clock-hour** term program is no longer a term. Instead, clock-hour term programs are treated exactly like nonterm programs.

Nonterm or clock-hour programs—34 CFR 668.4(b)

For credit-hour nonterm programs and all clock-hour programs, the school must define, in writing, the payment periods as measured in clock or credit hours for each program. The regulations require at least two equal payment periods for programs that are shorter than or equal to an academic year or at least two equal payment periods in each full academic year for programs longer than an academic year.

Less than AY

Equal to or longer than AY

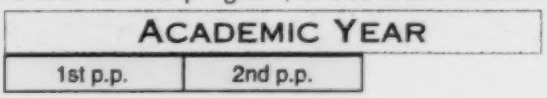
If the program of study is shorter than an academic year, each payment period is the period of time in which the student completes half the credit or clock hours in the program. If the program of study is equal to or longer than an academic year, each payment period is the period of time

in which the student completes half the credit or clock hours in the academic year.

Nonterm payment period examples

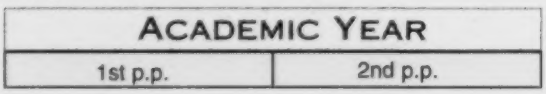
Less than an academic year

Laurel is enrolled in a 600-clock-hour program. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Laurel's program is shorter than an academic year, the two payment periods would be based on the length of her program (in clock hours). Each payment period is one-half the program, or 300 clock hours.



Equal to an academic year

Eric is enrolled in a 900-clock-hour program. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Eric's program is equal to an academic year, the two payment periods are based on the length of the academic year (in clock hours). Each payment period is half an academic year, or 450 clock hours.



For a program that is longer than an academic year, if the number of hours remaining in the final year is less than half an academic year, the final payment period is the period of time in which the student completes the remaining hours. If the number of hours remaining in the final year is more than half an academic year, each payment period in the final year is the period in which the student completes half the remaining hours in the **program**. The examples on the next page illustrate how to calculate final year payment periods in these situations.

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Nonterm payment period examples

Longer than an academic year

Marta is enrolled in a 1,200-clock-hour program. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Marta's program of study is longer than one academic year, the payment periods in the first year are based on the length of the academic year (in clock hours). Each of these payment periods is 450 clock hours (half the academic year). After the first year, only 300 clock hours remain, less than an academic year. Because 300 hours is less than half the academic year, the remaining 300 clock hours constitute the third and final payment period.

ACADEMIC YEAR		
1st p.p.	2nd p.p.	3rd p.p.

Fred is enrolled in a 1,600-clock-hour program. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Fred's program of study is longer than one academic year, the payment periods in the first year are half the academic year in clock hours, 450 clock hours. After the first year, only 700 clock hours remain. Because 700 hours is more than half the academic year, Fred has two payment periods in the final year. Each of the payment periods consists of one-half of the remaining hours in the program, or 350 hours each.

ADEMIC YEAR		ACADEMIC YEAR	
	2nd p.p.	3rd p.p.	4th p.p.

More frequent payment periods—34 CFR 668.4(b)(4)

Regulations also permit a school to establish more frequent payment periods for its programs of study. For example, a school may choose to use monthly payment periods. The payment periods must be equal in number of credit or clock hours, except that a final payment period for a program may be shorter than the other payment periods.

More frequent payment periods

Because many of the students enroll part time, Sarven Technical Institute decides to have four payment periods for the 650 clock hour program Miranda is enrolled in. Sarven can determine the number of clock hours in the payment periods by dividing the number of hours in the program by the number of payment periods:

$$650 \div 4 = 162.5$$

The first three payment periods will be the period in which the student completes 163 clock hours. The last payment period will have only 161 clock hours (the hours remaining in the program after the first three payment periods).

Because Miranda is enrolled for only 10 clock hours a week, her second payment period will not begin until after she is in the 17th week (it will take her that long to complete 163 hours).

For clock-hour programs and nonterm credit-hour programs, the payment period ends when the student has completed all the credit or clock hours in the payment period. Because the length of a payment period (measured in weeks of instructional time) is based on what a full-time student is expected to complete, part-time students will take longer than full-time students to complete each payment period. However, as we will discuss in "Calculating the Payment for a Payment Period," the number of weeks of instructional time that is used in the formula to calculate the payment for the payment period will remain the same.

34 CFR 668.4(b)(3)

For some nonterm credit-hour programs, the school does not award credits for part of the year (or program). For example, the school may award the student credits only after the student has completed the entire program. The school must still determine the payment periods as usual, but may adjust the beginning of the second payment period to account for the student being halfway or further through the year or program without having earned half the credits. In such cases, the second payment period is considered to begin at the later of the calendar midpoint between the first and last day of class or the point at which the school considers that the student has completed half of the academic coursework for the year or program.

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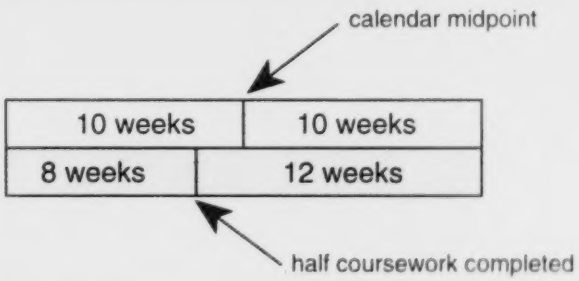
Sarven Technical Institute does not award credit to a student in the nonterm 24 quarter hour program Allen is enrolled in until the student completes the entire program. Because the program is shorter than an academic year, it must have at least two equal payment periods. Each payment period will be the period of time in which a student completes 12 quarter hours.

Because Allen will not be awarded 12 quarter hours before he finishes the program, Sarven adjusts the beginning of the second payment period. The program is 20 calendar weeks in length; the calendar midpoint between the first and last day of enrollment is at the beginning of the 11th calendar week. Sarven considers that Allen has completed half the academic coursework (although he has not been awarded any credit hours) by the end of the 8th calendar week.

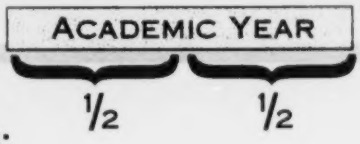


Sarven may pay Allen for the second payment period at the beginning of the 11th calendar week, because this is the later of the two points.

Excused absences—34 CFR 668.164(b)(3)

Note that a school with a clock-hour program may take into consideration "excused absences" in determining whether a student has completed the hours in a payment period. The school must have a written policy permitting excused absences, and the absences must actually be excused—that is, the student will not be required to make up the absences to receive the degree or certificate for the program. The cash management regulations now provide that the school cannot allow the excused absences to exceed 10% of the clock hours in the payment period (or less as required by accrediting agency or state agency policies). For example, if a school's written policy (in accordance with its accrediting agency guidelines) allows a student to miss up to 50 hours of a program, the school may still pay a student who had missed 20 of the first 450 hours at the same time it would pay a student who did not miss any hours. Note that although the accrediting agency guidelines in this case allow the student to miss up to 50 hours of the entire program, the school could not excuse more than 45 hours (10% of the hours) of the payment period.

STEP 4: Determine Payment Periods



Step 4 summary by formula

Formula 1, Formula 2, Formula 3:

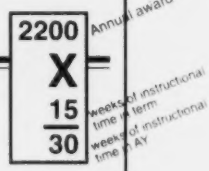
Payment period is the academic term

Formula 4:

Length of payment period measured in credit or clock hours.

Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each full academic year (or final portion longer than half an academic year) for programs longer than or equal to an academic year.

CALCULATING THE PAYMENT FOR A PAYMENT PERIOD



Once the school has determined the payment period, it can determine how much of the annual award the student will receive for that payment period. A student may receive a Pell payment only for those terms, or payment periods, in which the student is enrolled. For some students, the total disbursements for all payment periods within the award year will equal the amount of the Scheduled Award. However, students who attend for less than an academic year (in either clock/credit hours or weeks of instructional time) will not receive a full Scheduled Award. This may occur if the student enrolls for only part of the year, attends part time, or if the program is less than an academic year in length. These enrollment variations are taken into account in the calculation of the student's payment for the payment period. The four calculation formulas discussed in this section account for these variations differently; therefore, we will describe the calculation for each formula separately (see page 4-11 for more information on which formula to use).

Formula 1

For a program using Formula 1, a student will attend less than an academic year only if he or she enrolls part time or does not enroll in all terms in the academic year. The adjustment for part-time enrollment is made in determining the annual award (by using the appropriate part-time Disbursement Schedules). The adjustment for a student not enrolling in all terms is made by dividing the annual award evenly between the terms. If the student does not enroll in a term, he or she will not receive that part of the award. Therefore, to determine the payment for a payment period, divide the annual award by the number of payment periods in the academic year (two for semesters or trimesters, three for quarters). However, if the school has a summer term, it may wish to use an alternate

calculation that spreads the award over the summer term as well (see "Summer Terms" later in this section for more information).

Helen enrolls full time in Hart University in a degree program offered in semesters. Hart University can use Formula 1 to calculate Pells for students in this program. Helen enrolls in both semesters in the 1997-98 award year, and her EFC is 752. The Pell COA is $8,170.

Based on a COA of $8,170 and an EFC of 752, the full-time Payment Schedule shows that Helen is eligible for an annual award of $1,950.

To calculate Helen's payment for the semester, Hart divides the annual award by the number of terms:

$1,950 ÷ 2 = $975

Therefore, Helen's payment for each semester is $975; she will receive the full annual award of $1,950 if she actually attends full-time both semesters.

Formula 2

For a program using Formula 2, a student will attend less than an academic year in credit hours only if he or she enrolls part time or does not enroll in all terms (fall through spring) in the academic year. As for Formula 1, the adjustment for part-time enrollment is made in determining the annual award (by looking up the award on the appropriate schedule). Because the fall through spring terms provide fewer than 30 weeks of instructional time, the school must always adjust for less than an academic year in weeks by prorating the annual award:

34 CFR 690.63(c)(3)

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in fall through spring terms}}{\text{Weeks of instructional time in program's definition of academic year}}$$

Then, to adjust for students not attending all terms, the award is divided evenly between terms. To determine the payment for one payment period, divide the **prorated** annual award by the number of terms in the year (two for semesters or trimesters, three for quarters). If the school has a summer term, it may use the alternate calculation to distribute the award over all terms (see "Summer Terms" later in this section).

Emma enrolls full time in Woodhouse College, which has two semesters of 14 weeks each. Woodhouse College defines the academic year for Emma's program as 24 semester hours and 30 weeks of instructional time, and uses Formula 2 to calculate Pells for students in this program. Emma's EFC is 545, and the Pell COA for the program is $6,505. The full-time Payment Schedule shows that Emma is eligible for an annual award of $2,150.

Because the two terms provide less than 30 weeks of instructional time, the annual award must be prorated:

$$\$2{,}150 \times \frac{\text{28 weeks instructional time in fall through spring terms}}{\text{30 weeks instructional time in academic year definition}} = \$2{,}006.67$$

This prorated amount is then divided by the number of terms:

$$\$2{,}006.67 \div 2 = \$1{,}003.34$$

Therefore, Emma's payment for the first semester is $1,003 (rounded down from $1,003.34) and her payment for the second semester is $1,004 (rounded up because the first payment is rounded down). Emma will receive $2,007 for her attendance in both semesters. Note that this is less than her Scheduled Award; she may be able to receive the remaining $143 if she enrolls in a summer term.

Formula 3

Under Formula 3, the school also adjusts for less than an academic year by using enrollment status in determining the annual award and by distributing the award over terms. Because the program may use uneven nonstandard terms, the award cannot simply be divided evenly among the terms. Instead, the school must multiply the annual award by a fraction representing the proportion of an academic year the payment period contains. This procedure adjusts for the period of enrollment that is less than an academic year either because the student misses a term or because the terms provide less than an academic year of instruction. To calculate a student's payment for a payment period, the school uses the following formula:

34 CFR 690.63(d)3, 4

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting amount is more than 50% of the annual award, the school must make the payment in at least two disbursements. A single disbursement may never be more than 50% of the annual award.

34 CFR 690.63(f)

Anner is enrolled half time in the first 8 week term at Bylsma Conservatory and full time in the remaining three terms. Bylsma defines the academic year for Anner's program as 40 quarter hours and 32 weeks of instructional time, and uses Formula 3 to calculate Pells. Anner's EFC is 323, and the Pell COA for the program is $11,140.

For the first term, the half-time Disbursement Schedule shows that Anner is eligible for an annual award of $1,175. To determine Anner's payment for the first payment period, the school uses the following calculation:

$$\$1{,}175 \times \frac{\text{8 weeks instructional time in the term}}{\text{32 weeks instructional time in the academic year}} = \$293.75$$

Anner's payment for the first payment period will be $294 (rounded up from $293.75).

For the remaining terms, the full-time Payment Schedule shows that Anner is eligible for an annual award of $2,350. To determine Anner's payment, Bylsma uses the following calculation:

$$\$2{,}350 \times \frac{\text{8 weeks instructional time in the term}}{\text{32 weeks instructional time in the academic year}} = \$587.50$$

Anner's payment for the second term will be $587 (rounded down because the first payment was rounded up); his payment for the third term will be $588, and his payment for the fourth term will be $587.

Owen is enrolled in the education program at Hart University that has a short 4-week term between two 15-week terms. His enrollment status is half-time for the first and third terms and full-time for the second term. The academic year for the program is defined as 34 weeks of instructional time and 24 semester hours. Hart uses Formula 3 to calculate Pells for students in this program. Owen's EFC is 1214, and the Pell COA for the program is $8,745.

For the first and third terms, the half-time Disbursement Schedule shows that Owen is eligible for an annual award of $725. To determine Owen's payment for these two terms, the school uses the following calculation:

$$\$725 \times \frac{\text{15 weeks instructional time in the term}}{\text{34 weeks instructional time in the academic year}} = \$319.85$$

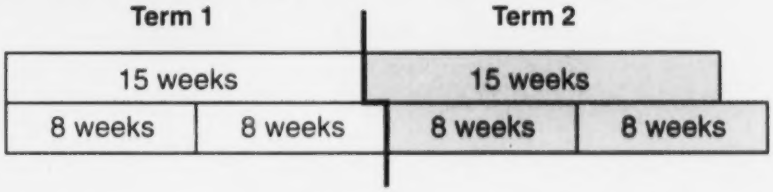
Owen's payment for the first term will be $320 (rounded up from $319.85).

For the second term, Owen has an annual award of $1,450 (from the full-time Payment Schedule). Note that this is the same as his Scheduled Award. To determine his payment for the term, Hart uses this calculation:

$$\$1{,}450 \times \frac{\text{4 weeks instructional time in the term}}{\text{34 weeks instructional time in the academic year}} = \$170.59$$

Owen's payment for the second payment period will be $171 (rounded up from $170.59). His payment for the third payment period will be $319 (rounded down from $319.85 because the first two payments were rounded up). He will receive $810 for the entire year. Note that this is less than his Scheduled Award, but more than the annual award based on half-time enrollment.

Eddy is enrolled in the program to which Hart University has recently added 8-week terms. Two of the 8-week terms are combined with each semester to create two combined semesters providing 16 weeks of instructional time each.



Hart uses the same definition of academic year for the program that it used before adding the 8-week terms: 30 weeks of instructional time and 24 semester hours. Because the terms overlap, Hart uses Formula 3 to calculate payments for students in the program.

Eddy is enrolled three-quarter time in the first term, and full time in the second term. His EFC is 0, and the Pell COA for the program is $8,170. The three-quarter-time Disbursement Schedule shows that Eddy is eligible for an annual award of $2,025. His Scheduled Award is $2,700. To determine Eddy's payments for the first term, Hart uses the following calculation:

$$\$2{,}025 \times \frac{\text{16 weeks instructional time in the term}}{\text{30 weeks instructional time in the academic year}} = \$1{,}080$$

Eddy will receive $1,080 for the first term. For the second term, the full-time Payment Schedule shows that Eddy's annual award is $2,700. Hart calculates the payment for this second term as follows:

$$\$2{,}700 \times \frac{\text{16 weeks instructional time in the term}}{\text{30 weeks instructional time in the academic year}} = \$1{,}440$$

Eddy will receive $1,440 for the second term. His total Pell for the year will be $2,520, which is less than the Scheduled Award. Note that if Eddy enrolled full-time in both terms, his second payment would need to be reduced so that he would not receive more than his Scheduled Award.

Formula 4

Unlike under the preceding three formulas, no adjustment for enrollment status is made in determining the annual award under Formula 4. Instead, a comparable proration of the award based on hours enrolled must be performed. The calculation for the payment period adjusts the annual award both if the student will be enrolled in fewer credit/clock hours than in a full academic year (an adjustment mainly handled by enrollment status in the other formulas) and if a full-time student would be attending

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34 CFR 690.63(e)2

fewer weeks than a full academic year. To adjust for fewer weeks, the school must multiply the annual award by the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

Note that the result of this multiplication will never be greater than the original annual award. Because the annual award has not been adjusted for enrollment status, the fractions use the weeks of instructional time for a **full-time student** to complete the hours in the program or academic year. The school must determine the weeks of instructional time it takes a full-time student to complete the hours based on the time required for the majority of its full-time students to complete the program or academic year, not student by student.

34 CFR 690.63(e)3

Then, to adjust for fewer clock/credit hours, the school must multiply this adjusted annual award by the following fraction:

$$\frac{\text{Credit/clock hours in a payment period}}{\text{Credit/clock hours in program's definition of academic year}}$$

34 CFR 690.63(f)

The resulting amount is the payment for a payment period. However, if this amount is greater than 50% of the annual award, the school must make the payment in at least two disbursements. A single disbursement may never be more than 50% of the annual award.

Miranda is enrolled for 10 clock hours per week in a 650 clock hour program at Sarven Technical Institute. She begins attending in January 1998. The program provides 27 weeks of instructional time; Sarven defines the academic year for the program as 30 weeks of instructional time and 900 clock hours. Miranda's EFC is 0; the Pell COA for less-than-half-time students in the program is $2,143.

Based on a COA of $2,143 and an EFC of 0, the full-time Payment Schedule shows that Miranda is eligible for an annual award of $2,150. Sarven has established 4 payment periods—the first three are each 163 clock hours, the fourth is 161 clock hours. To calculate Miranda's payment, the school uses the following calculations:

$$\$2{,}150 \times \frac{\text{27 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$1{,}935$$

$$\$1{,}935 \times \frac{\text{163 clock hours in the payment period}}{\text{900 clock hours in the academic year}} = \$350.45$$

Miranda's payment for the first payment period will be $350 (rounded down from $350.45). She may receive this payment when she begins the program. Her payment for the second payment period will be $351 (rounded up because the first payment was rounded down); she may receive this payment after she completes the 163 clock hours in the first payment period. Because she is completing only 10 clock hours a week, the final two payment periods will be in the 1998-99 award year, and a new calculation will be required based on the 1998-99 Payment Schedule.

Allen is also enrolled at Sarven Technical Institute; his EFC is 137, and the Pell COA for his program is $4,650. His program is 24 quarter hours and 20 weeks of instructional time; the academic year for the program is defined as 36 quarter hours and 30 weeks of instructional time. Based on a COA of $4,650 and an EFC of 137, the full-time Payment Schedule shows that Allen is eligible for an annual award of $2,550.

Sarven has established two payment periods of 12 quarter hours each for Allen's program. To calculate Allen's payment, the school uses the following calculations:

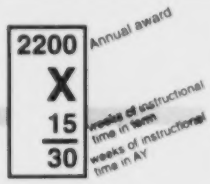
$$\$2{,}550 \times \frac{\text{20 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$1{,}700$$

$$\$1{,}700 \times \frac{\text{12 quarter hours in the payment period}}{\text{36 quarter hours in the academic year}} = \$566.67$$

Allen's payment for the first payment period will be $567 (rounded up from $566.67). Allen may receive this payment when he begins the program. Allen's payment for the second payment period will be $566 (rounded down, because the first payment was rounded up). Because students do not earn any of the 24 quarter hours in the program until they complete the entire program, Sarven has determined that it may make the payment for the second payment period after Allen has completed the tenth calendar week of the program (see page 4-28).

Step 5 summary by formula

STEP 5: Calculate Payment for a Payment Period



Formula 1:

$$\frac{\text{Annual award}}{\text{Number of payment periods in the program's definition of academic year}}$$

Formula 2:

Proration required unless alternate calculation is used

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the fall through spring terms}}{\text{Weeks of instructional time in program's definition of academic year}} \div \begin{matrix}\text{2 (if semesters or trimesters)} \\ \textbf{OR} \\ \text{3 (if quarters)}\end{matrix}$$

OR

Annual award ÷ number of terms in the award year (for alternate calculation)

Formula 3:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

A single disbursement may not exceed 50% of the annual award

Formula 4:

Annual award is multiplied by two fractions:

(1) Annual award x the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

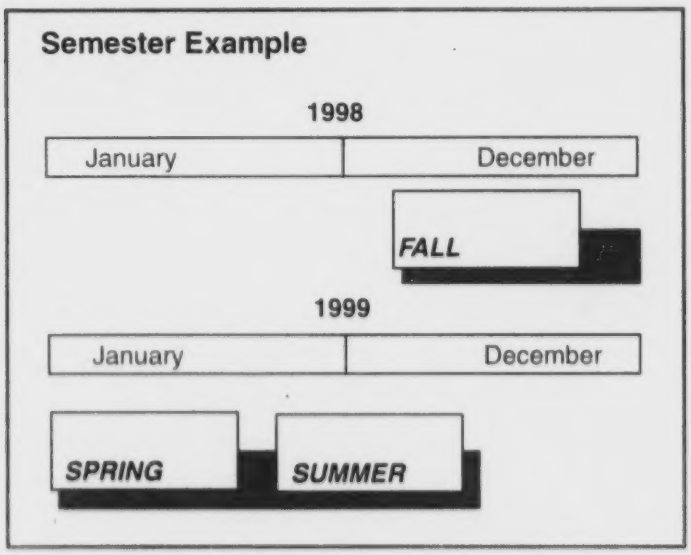
(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

A single disbursement may not exceed 50% of the annual award

CHECKING REMAINING ELIGIBILITY: CROSSOVER PAYMENT PERIODS

Payment periods do not always fall neatly into one award year or another. When a payment period falls into two award years, it is referred to as a "crossover payment period."



At a school with a traditional term calendar, the summer term is usually a crossover payment period.

The basic calculation for a crossover payment period is the same as that for any other payment period. However, there are additional provisions for some summer terms. (See "Summer Terms" in this section.)

Payment from either award year

The school may make a payment for a crossover payment period out of either award year, provided the student has a valid output document for the award year selected, except that if more than six months of the payment period occurs in a given award year, the Pell payment must be made from that award year.

The decision about which award year to use is usually based on the student's remaining eligibility in the earlier award year. For instance, if a student had already been paid for two semesters (each at least 15 weeks) as a full-time student for a full academic year in the 1998-99 award year, the student would have been paid a full Scheduled Award for that year. However, if the school receives a valid output document for the 1999-2000 award year, the student could be paid for the crossover period from that year's funds. Of course, a student may still be eligible for a summer payment from the earlier award year if the student has not attended for a full academic year. For example, a student who enrolls at midyear, in the spring session, might still have eligibility remaining for the summer term. As another example, a student could receive a Pell payment for the

summer term, even after receiving payments for the other terms in the award year, if the student attended **part time** in those other terms, or if those terms provided less than 30 weeks of instructional time.

Costs for crossover payment period

Costs for a crossover payment period are figured in the same way as for any other payment period; that is, the costs are based on a full academic year. For instance, if the school has fall and spring semesters that comprise an academic year, the financial aid administrator must not add the costs for the summer term to the costs for the fall and spring semesters. The award for the summer term is still based on the costs for one academic year. However, if the academic year definition includes the summer term, then the costs for the summer term **must** be included in the cost for a full academic year.

If the student was previously enrolled in the award year, the school may be able to use the same COA for the summer term that it used for the immediately preceding term the student attended. However, this is not possible if the school is required to recalculate the COA. (See Section 5 of this chapter for information on when recalculations are required.) If it is necessary to base the student's COA on the summer term, the financial aid administrator must prorate the summer costs to establish the cost for an academic year. (See "Calculating the Cost of Attendance" in this section for information on prorating costs.)

If the summer session is the first term in the award year for that student (for example, the school is paying a student for the summer 1998 term from the 1998-99 award year), the school must establish the student's full-year cost based on the costs for the **summer** term. If the student enrolls in another term in that award year, the school may have to recalculate the student's costs for the later term (see Section 5.)

SUMMER TERMS

If a school offers a summer term in addition to fall through spring terms, the school calculates the student's payment for the summer term by using the same formula used to calculate the payment for each term within the school's fall, winter, or spring terms. For a program for which the school could calculate awards using Formula 1 or 2, the school may instead perform an alternate calculation that distributes the annual award over all the terms for all students enrolled in the program.

Full-time status definition

Regardless of the method the school chooses to calculate the student's summer payment, the aid administrator must apply the school's definition of full-time status consistently to all SFA Programs. In addition, in order to calculate a student's Pell under Formula 1 or 2 or under the alternate calculation, the aid administrator must define full-time enrollment during the summer as at least 12 credit hours.

Alternate calculation

To perform the alternate calculation, the school divides the annual award by the number of terms (including the summer term) in the award year. If the school chooses this alternate calculation, the school must use the alternate calculation for **all** students enrolled in the same program of study, increase the number of weeks of instructional time in the academic year defined for the student's program to include the number of weeks in the summer term, and include the costs for the additional term in the Pell COA. The school may also include the number of credit hours for the additional term in the academic year defined for the student's program.

Alternate calculation example

Kevin enrolls as a half-time student in a two year associate degree program at Ivers Community College. The academic calendar for this program uses quarters; there are three quarters in the fall through spring terms, each providing 9 weeks of instructional time. The program also has a summer quarter which provides 9 weeks of instructional time. Ivers can use Formula 2 to calculate Pells for students in the program, and decides to use the alternate calculation to distribute the award over all four terms. The school defines the academic year for Kevin's program as 48 quarter hours and 36 weeks of instructional time (both the weeks and the credit hours for the summer term are included in the academic year). Kevin's EFC is 300, and the Pell COA (which includes costs for the summer quarter) is $5,200.

Based on a COA of $5,200 and an EFC of 300, the half-time Disbursement Schedule shows that Kevin is eligible for an annual award of $1,225. Ivers uses the alternate calculation to determine Kevin's payment for a payment period. It divides the annual award by the number of terms in the award year:

$$\$1,225 \div 4 = 306.25$$

Kevin will receive $306 (rounded down from $306.25) in the fall, winter, and spring quarters; he will receive $307 (rounded up because other payments are rounded down) in the summer quarter.

If the school does not choose to use the alternate calculation and calculates the payment for the summer term using Formula 1 or 2, the school must ensure that the amount of Pell funds the student receives for the award year does not exceed the Scheduled Award. (See "Crossover Payment Periods" in this section.)

Suppose for the preceding example, Ivers did not use the alternate calculation, and calculated payments using Formula 2. Because Ivers would no longer be required to include the summer term in the academic year definition, it could define the academic year for the program as 30 weeks of instructional time and 36 quarter hours. Ivers would also have to adjust the COA (to remove summer costs), although in this case it would not affect Kevin's annual award. Using the same annual award as in the previous example, the school would calculate Kevin's payment as follows:

$$\$1{,}225 \times \frac{\text{27 weeks instructional time in fall through spring terms}}{\text{30 weeks instructional time in academic year definition}} = \$1{,}102.50$$

Ivers would then divide this prorated annual award by 3 (because the program uses quarters) to determine Kevin's payment for the payment period:

$$\$1{,}102.50 \div 3 = \$367.50$$

Kevin would receive $368 for each of the fall and spring quarters (rounded up from $367.50), and $367 for the winter quarter. He would receive an additional $367 payment for the summer quarter. Under this calculation, Kevin will receive a total of $1,470 for the award year. His Scheduled Award is $2,450, so he will not receive more than a Scheduled Award.

Summer minisessions

If a term-based school offers a series of minisessions that overlap two award years (by "crossing over" the June 30 end date for one award year), these minisessions may be combined and treated as one term. However, schools are not required to combine these minisessions. The weeks of instructional time in the combined term are the weeks between the beginning of the first minisession and the date the last minisession will end. The student's enrollment status for the entire payment period must be calculated based on either

- the total number of credits the student is taking for all sessions, if that number is known when the award is calculated, or
- a projected number of credits based on the credits the student is taking for the first session if the number of credits to be taken in subsequent sessions is unknown when the award is calculated.

If the school combines minisessions into a single term, a student may not be paid more than the amount for one payment period for completing any combination of the minisessions.

Note that recalculation is required if the student does not ultimately attend the projected classes in a subsequent minisession. (See "Change in Enrollment Status" in Section 5 of this chapter.)

If the school does not combine minisessions into a single payment period, it must treat each minisession as a separate nonstandard term and calculate the payment for each using Formula 3.

Minisession example

Bruce enrolls part time at Hart University. In addition to fall and spring semesters, Hart University offers three summer minisessions. Each minisession provides 5 weeks of instructional time. Hart chooses to combine the sessions into a single payment period providing 15 weeks of instructional time. Full-time enrollment in this period is defined as 12 semester hours. Hart can use Formula 1 to calculate payments for this summer session.

Bruce enrolls for 3 semester hours in each of the minisessions, so he is enrolled three-quarter time (9 hours total in the combined term). His EFC is 772 and the Pell COA is $8,170. Based on a COA of $8,170 and an EFC of 772, the three-quarter-time Disbursement Schedule shows that Bruce is eligible for an annual award of $1,463. To calculate Bruce's payment, the school divides the annual award by the number of terms in the academic year:

$$\$1,463 \div 2 = \$731.50$$

Bruce may receive $732 for the combined summer session if it is the first term of the award year. However, suppose Bruce had also enrolled three-quarter time in the preceding fall and spring semesters. He would have received a total of $1,463 for these two terms. If this amount is subtracted from his Scheduled Award ($1,950), only $487 remains. Therefore, if Bruce had enrolled in both semesters and was being paid from the same award year for the summer, he would only receive $487 for the combined summer session.

If Hart University did not combine the three minisessions, it would have to calculate payments for the program using Formula 3. Hart would have to determine Bruce's enrollment status by multiplying full-time enrollment for the academic year (24 semester hours) by the number of weeks of instructional time in the term (5) over the number of weeks in the academic year (30). For the 5 week terms, a full-time student must enroll in 4 semester hours to be full time; therefore, Bruce is still enrolled three-quarter time. The COA would not have to be adjusted, and his annual award would remain the same. Hart would determine his payment using the following calculation:

$$\$1,463 \times \frac{\text{5 weeks instructional time in the term}}{\text{30 weeks instructional time in the academic year}} = \$243.83$$

Bruce would receive $244 for the first two minisessions (rounded up from $243.83) and $243 for the third (rounded down because the first two were rounded up), for a total of $731 for the summer. Again, these payments may need to be reduced if Bruce had previously received payments for the fall and spring semester in this award year.

CHECKING REMAINING ELIGIBILITY: TRANSFER STUDENTS

Output document and financial aid history needed

The school must be careful not to exceed the Scheduled Award when paying a student who has previously received a Pell for the award year at another school. To pay such a student, the school must obtain a SAR or ISIR and financial aid history information.

Application information

There are three ways for a school to obtain the student's application information and official EFC if that school was not listed on the FAFSA:

1. The school can have the student request a duplicate of his or her original SAR and submit it.

2. If the school participates in EDE, it can have the student provide the Personal Identification Number (PIN) that is printed on the upper right corner of the SAR, so that the school can obtain the student's data electronically.

3. The school can have the student correct his or her SAR to add the school's name to the list of schools in items 92 through 103.

Financial aid history

The school may obtain a financial aid history by requesting that the other eligible school(s) that the student attended send a financial aid transcript. Note that schools may also receive transcript information through the NSLDS. (See Chapter 2 for more on transcript requirements and NSLDS.) However, schools should be aware that there are limits on the use of NSLDS for midyear transfers, as discussed below.

Midyear transfer—"Dear Colleague" Letter GEN-96-13

To calculate awards for students who transfer during the award year, the school must have up-to-date information on the student's scheduled award and the amount disbursed. That information is not provided in the NSLDS section of the output document. If the school wishes to use NSLDS for transcript information for such students, it must check NSLDS at least 60 days after the end of the student's enrollment at the previous school. A school may make an initial disbursement to such students before receiving the final NSLDS data as it would to students for which it had requested but not received a financial aid transcript. Alternatively, the school may request up-to-date transcript data from the previous school. The school may request only information on the current year and use NSLDS for the remaining financial aid history. (See Chapter 2, Section 2 for more on NSLDS.)

Calculating the payment

The Pell payment for a transfer student is calculated in the same way as for any new student. That is, the school must divide the annual award (prorated if necessary) into payments for each payment period. However, before paying a transfer student, the school must also make sure the student does not receive more than 100% of his or her Scheduled Award during the award year. Thus the school must determine what percentage of the Scheduled Award at the previous school the student actually received. Because the school is determining the relationship between the amount the student received and the Scheduled Award used to determine that amount, the school must use the Scheduled Award reported by the previous school in determining this percentage, and cannot correct it on the basis of its own records.

The financial aid history provides the necessary information. First, find the percentage of the Pell received at the previous school by dividing the amount the student received by the student's Scheduled Award at that school. Then subtract this percentage from 100%. The result is the maximum percentage of the Scheduled Award that the student may receive at the new school.

Figuring percentage of remaining eligibility—34 CFR 690.65(d)

Transfer example

A student attends fall and winter terms at a school using nonstandard terms. The student then transfers to a school using semesters for the spring semester. The financial aid transcript from the first school shows the student received $1,003 in Federal Pell Grant payments and had a $1,700 Scheduled Award. The student is eligible for a $2,100 Scheduled Award at the new school. What is the maximum the student can be paid for the remainder of the award year at the new school?

$1,003 ÷ $1,700 = 59% of Scheduled Award used at first school

The student is eligible for 41% of the Scheduled Award at the new school.

41% X $2,100 = $861

A student with a $2,100 Scheduled Award would ordinarily receive a $1,050 payment for one semester (if enrolled full-time). However, the transfer student in this example may not be paid more than $861, because the student has received 59% of the Scheduled Award at the first school.

The reason for using percentages is that a transfer student may have different Scheduled Awards because the costs of attendance at the two schools may be different. The percentages are used to compare the portions of a student's total eligibility that have been used at both schools. (If the student's Scheduled Award is the same at both schools, the financial aid administrator can find the amount of the student's remaining eligibility simply by subtracting the amount received at the first school from the Scheduled Award.)

Note that a transfer student receives the same payments as any other student until the limit (100% of a Scheduled Award) is reached. For example, a transfer student enrolls for two terms in the award year at a school and would ordinarily receive a $500 payment for each term. However, the student's remaining eligibility, based on payments at the other school, is only $600. Rather than "rationing" this amount by splitting it into two $300 payments for the two terms, the school must pay the student $500 for the first term and the remainder ($100) for the second term. Thus, the student will have received a full payment for the first term, even if he or she does not return for the second term.

Rounding

When making disbursements, round to the nearest dollar: Round up if the decimal is .50 or higher; round down if it is less than .50. For instance, if a calculation resulted in a payment of $516.66, round up to $517. If the calculation result was $516.33, round down to $516. The payment system will not allow payments including cents.

For a student who is expected to be enrolled for more than one payment period in the award year, the school must alternate rounding up and rounding down to ensure that the student receives the correct amount for the year. For example, if a student had a Scheduled Award of $1,025 to be paid in two payment periods, the first payment would be $513 (rounded up from $512.50), and the second payment would be $512 (rounded down to ensure that the student is not overpaid for the year).

The same principle applies when there are three or more payment periods in the award year. For instance, if the student has a Scheduled Award of $1,100 and enrolls at a school using quarter terms, the payment for each term would come to $366.66. The first two payments would be rounded up to $367, and the last payment would be rounded down to $366 to reach the total of $1,100.

Fractions

When using fractions, be careful to multiply first, and then divide to avoid making an overpayment. For example, to calculate the payment in a program that has three payment periods of 300 hours each, you should use the method in this example:

$$\underset{\text{(prorated Annual Award)}}{\$2{,}130} \times \frac{300}{900} \quad \begin{matrix}\text{(hours in payment period)} \\ \text{(hours in award year)}\end{matrix}$$

Step 1: $2,130 X 300 = 639,000
Step 2: 639,000 ÷ 900 = $710

(In *this* case, you can simplify the calculation by reducing the fraction 300/900 to 1/3 and get the same result. But, if you divide the fraction to get a decimal [300/900 = .333333...] and then round the decimal either down [.33] or up [.34], your calculation will produce either an underpayment [$703] or an overpayment [$724].)

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Section 3 Special Program Considerations

In the preceding section, we described Pell calculations that apply to most postsecondary educational programs. However, some schools may have categories of students or educational programs that require special handling.

CONSORTIUM AGREEMENTS (BETWEEN ELIGIBLE SCHOOLS)[1]

The Federal Pell Grant Program regulations prohibit a student from receiving a Pell from more than one school at the same time. However, a school is allowed to pay a student enrolled in one of its eligible programs for courses taken at other eligible schools if those courses apply to the degree or certificate in the first school's program. To pay such a student, the school must first have a written consortium agreement with the other school(s) the student is attending.

34 CFR 690.9

A consortium agreement establishes that the "home" institution considers the student to be enrolled in an eligible program and unconditionally accepts the credits earned at the "host" institution for credit towards the educational program at the home school. The agreement should further specify which school will be responsible for awarding and disbursing aid and monitoring student eligibility. (Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student's eligibility and make payments.)

Elements of a consortium agreement

Other factors that may need to be addressed in the agreement are the applicable refund policy, satisfactory progress policy, and any procedures for calculating the total COA and enrollment status for the student.

[1] If the written agreement is with an ineligible school, see the discussion of contractual agreements in Chapter 3, Section 5. A school may not enter a contractual agreement with a school that has **lost** its eligibility. In a contractual agreement with an ineligible school, the student must be enrolled for the entire program at the eligible school, even though a portion of the program is provided by contract with the ineligible school. Thus, the student's enrollment status and COA are based on the hours taken at, and the costs in, the eligible program.

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The consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific student. Such an agreement is often used when the student takes related courses at neighboring schools or when the student is in an exchange program with another eligible school for a term or more. The written agreement ensures that the student will receive payment from only one school in a given payment period. (See Chapter 3, Section 5 for more information on consortium agreements.)

Cost of attendance

The COA is calculated in the same way as for a student taking classes at only one school. The student's tuition and fees and books and supplies charges at the consortium schools have to be combined into a single charge for a full academic year for purposes of the Pell calculation. If the student is carrying a full-time course load (based on hours taken at both or all schools), the student's tuition and fees and books and supplies costs would be based on actual or average charges, depending on whether the disbursing school uses actual or average charges for its Pell awards.

Prorating average charges at each school

Actual charges for a full-time student would simply be the sum of the actual charges at the schools the student is attending under the consortium arrangement. If the disbursing school uses **average charges,** then the average charges at each of the schools must be prorated and combined. If the student is taking an equal course load at each school, the full-time tuition and fees charges for an academic year at each school can be averaged to determine the tuition and fee cost. However, if the student is taking an unequal course load, the disbursing school must prorate the charges based on the number of hours the student is taking at each school.

A student is enrolled for 3 credit hours at School A and for 9 credit hours at School B. The full-time tuition and fee charge for an academic year at School A is $3,000, while the full-time charge at School B is $4,000. What is this student's average tuition and fee charge for an academic year?

Prorated charge at School A	$\$3,000 \times \frac{3}{12}^{1} = \$750$
Prorated charge at School B	$\$4,000 \times \frac{9}{12} = \$3,000$
Add the prorated charges at both schools	$\$750 + \$3,000 = \$3,750$

[1] Note that the denominator must be the total number of hours the student is taking at both schools.

Average charges should also be prorated in this way to find the average full-time charge for a part-time student. Note that because the Pell COA must be the cost for a full-time student for a full year, the school cannot simply use actual charges to determine a part-time student's COA.

Combined enrollment status

The enrollment status of a student attending more than one school is based on all the courses taken at the consortium schools that apply to the degree or certificate at the home institution. The disbursing school may have to make some adjustments if the coursework at the different schools is measured in different units. (See the examples on the next page.)

Finding semester/ quarter-hour equivalents

Example 1:

A student is taking 6 semester hours at School A, the home institution, and 9 quarter hours at School B as part of the program at School A. What is the student's enrollment in semester hours?

$$9 \text{ quarter hours} \times \frac{2^{1}}{3} = 6 \text{ semester hours (equivalent at School B)}$$

Then, the hours taken at both schools can be added together:

$$\begin{array}{r} 6 \text{ semester hrs. at School A} \\ +6 \text{ semester hrs. at School B} \\ \hline 12 \text{ semester hours} \end{array}$$

Example 2:

In the example above, suppose instead the home institution is School B, and the 6 semester hours must be converted into the equivalent quarter hours:

$$6 \text{ semester hours} \times \frac{3}{2} = 9 \text{ quarter hours (equivalent at School A)}$$

Then, the hours taken at both schools can be added together:

$$\begin{array}{r} 9 \text{ quarter hrs. at School A} \\ +9 \text{ quarter hrs. at School B} \\ \hline 18 \text{ quarter hours} \end{array}$$

[1] A quarter-hour is approximately 2/3 of a semester hour.

It is the responsibility of the school that disburses the Pell award to maintain information on the student's eligibility, how the award was calculated, what money has been disbursed, and any other documentation, even if some of that documentation must come from other schools.

COOPERATIVE EDUCATION

In a cooperative education program, the school assesses the work to be performed by the student and determines the equivalent academic course load. The student's enrollment status is based on the equivalent academic course load.

Costs for a co-op program

If a student has a co-op job for the first term, the tuition and fees for that period can be projected over a full academic year (of at least 30 weeks). For example, a student has a co-op job for the first quarter of the academic year and pays a $50 fee and no tuition. The $50 fee can be projected for

each of the three quarters in the academic year for a total tuition and fees amount of $150. This amount is then added to the other COA components to arrive at the total cost for that term. Note that the COA may include employment-related expenses (see Chapter 2, Section 3). The school may also recalculate the student's tuition and fees at the end of the first term rather than using the COA for the period of co-op study for subsequent payment periods. This decision must be consistent with the school's overall policy on recalculating for changes in a student's costs. (See Section 5 of this chapter for more information.)

CORRESPONDENCE STUDY

Students enrolled in correspondence courses are eligible for aid under SFA Programs only if the courses are part of a program leading to an associate, a bachelor's, or a graduate degree.

An eligible correspondence program must meet the criteria for an eligible program (see Chapter 3). A nonterm correspondence program must require at least 12 hours of preparation per week. A term correspondence program must require 30 hours of preparation per semester hour or 20 hours of preparation per quarter hour during the term. The school determines the length of the correspondence program by preparing a written schedule for the lessons that the student will submit. Students enrolled in programs of correspondence study are considered to be no more than half-time students and thus are limited to no more than half a Scheduled Award. However, a correspondence student may receive more than half a Scheduled Award if the correspondence program includes a required period of residential training or is combined with classroom instruction.

Half-time limit

Formula 5 is used to calculate payments for a payment period for students enrolled only in a correspondence program (not including residential components). There are two versions of Formula 5; version A is used for nonterm programs, and version B is used for term-based programs. (For a residential component of a correspondence program, the school must use either Formula 3 or Formula 4.) Formula 5 uses the same basic steps as the other formulas discussed in Section 2.

Formula 5

Step 1: Determine Enrollment Status

As stated above, students enrolled in programs of correspondence study are considered to be no more than half-time students. A student enrolled only in a nonterm correspondence program is always considered to be enrolled half time. For a student enrolled in a term correspondence program, the school must determine whether the student is enrolled half time (6 or more credit hours in a term) or less than half time (less than 6 credit hours in a term). Special rules are used to determine the student's

enrollment status when the student is enrolled in a combination of regular and correspondence coursework (see the chart on page 4-52).

Step 2: Calculate Cost of Attendance

The COA for correspondence study includes only tuition and fees. Room and board costs and allowances for books and supplies and travel may be included only if the student would incur them in fulfilling a required period of residential training. As always, the cost must be the full-time, full academic year cost. If the student's program or period of enrollment is longer or shorter than an academic year, the cost is prorated using the following formula:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours for which costs apply}}$$

Note that because there are no costs associated with weeks of instructional time in the correspondence COA, the school will have to prorate the cost only if the number of hours in the program is shorter or longer than in an academic year.

Step 3: Determine the Annual Award

The annual award for a student in a nonterm correspondence program is always taken from the half-time Disbursement Schedule because a correspondence student may not receive more than half a Scheduled Award. For a student in a term correspondence program, the annual award is determined from the half-time Disbursement Schedule or the less-than-half-time Disbursement Schedule, as appropriate.

Step 4: Determine the Payment Periods

Formula 5A

34 CFR 690.66(b)

For a nonterm correspondence program, there must be at least two equal payment periods. The first payment period is the period in which the student completes the lesser of the first half of the academic year or the program (measured in credit hours). The second payment period is the period in which the student completes the lesser of the second half of the academic year or the program. In addition, the school may not disburse a Pell payment for the first payment period until the student has completed 25% of the work in the academic year or program, whichever is shorter. It may not make the second payment until the student has completed 75% of the work in the academic year or program.

For a term correspondence program, as for other term-based programs, the payment period is the term. However, the school may not disburse the Pell for a payment period until the student has completed 50% of the lessons or completes 50% of the work for the term, whichever is later.

Formula 5B
34 CFR 690.66(c)(4)

If the correspondence program has a required period of residential training, the school must treat the residential training as an additional payment period and determine the payment for that payment period using either Formula 3 or Formula 4. Note that the correspondence portion of the program is still treated as a separate portion of the program that is divided into two equal payment periods.

Residential training

Step 5: Calculate the Payment for a Payment Period

For nonterm programs, this step is the same as under Formula 4. The school first multiplies the annual award (determined from the half-time Disbursement Schedule, in this case) by the lesser of

Formula 5A
34 CFR 690.66(a)(3)

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

The school then multiplies the result by the following fraction:

34 CFR 690.66(a)(4)

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

For term programs, this step is the same as under Formula 3. The school multiplies the annual award by the weeks in the term divided by the weeks in the academic year:

Formula 5B

34 CFR 690.66(c)(3)

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting amount is more than 50% of the annual award, the school must make the payment in at least two disbursements. A single disbursement may never be more than 50% of the annual award.

CORRESPONDENCE STUDY COMBINED WITH REGULAR STUDY

34 CFR 690.8(b)

If correspondence coursework is to be combined with regular coursework, the correspondence courses must meet the following criteria to be included in the student's enrollment status:

- The courses must apply toward the student's degree or certificate or must be remedial work to help the student in his or her course of study.
- The courses must be completed during the period required for the student's regular coursework.

When combining the number of hours of correspondence work with the number of hours of regular coursework to determine the student's enrollment status for a Pell, the amount of correspondence work counted may not exceed the number of hours of regular coursework in which the student is enrolled. (However, if the student is taking at least a half-time load of correspondence courses, the student would be paid as at least a half-time student, regardless of the hours of regular coursework.)

The following chart gives examples of the above rules. The chart assumes that the school defines full-time enrollment as 12 credits per term, making half-time enrollment 6 credits per term. As you can see in the second and third examples, the number of correspondence hours that were counted in the total course load were adjusted so that the correspondence hours never exceed the regular hours taken. Note that in the last example, the student is eligible for payment based on half-time enrollment in correspondence courses, despite the fact that the student only took 2 hours of regular coursework.

Regular work (credit hrs.)	*Correspondence work (credit hrs.)*	*Adjusted Total Course Load*	*Enrollment Status*
3	3	6	Half time
3	6	6	Half time
3	9	6	Half time
6	3	9	Three-quarter time
6	6	12	Full time
2	6	6	Half time

A student will be paid as a less-than-half-time student for any combination of regular and correspondence work that is less than 6 hours.

FOREIGN STUDY

A student can be paid a Pell for study at a foreign school only if the coursework is taken as part of an eligible program at an eligible U.S. school. The foreign study arrangement must be covered by a written agreement between the two schools. Such an arrangement would have to meet the same requirements as a contractual agreement (see the discussion in Chapter 3, Section 5).

Students enrolled in study abroad programs with costs of attendance higher than those of the home school may receive a higher Pell award to cover those costs, not to exceed the maximum Pell award.

JOB TRAINING (JTPA) PROGRAMS

If a program conducted with funding provided through the Job Training Partnership Act (JTPA) is offered by an eligible school and meets the definition of an eligible program, eligible students in that program may receive Pell assistance.

Tuition and fees charges for JTPA programs

The amount of a Pell for a student in a JTPA program is calculated just as for any other Pell recipient. A school may include a tuition and fees charge in the COA for a Pell recipient only if that charge is actually made to the student and is paid either by the student or by some type of student financial assistance (such as JTPA). The existence of such a tuition and fees charge must be documented in the same way as for any non-JTPA student—for instance, in the school's contract with the student or in the agreement with the JTPA agency. (If the school charges the student for tuition and fees, the school would have to expect the student to pay the charge if the JTPA agency or other source of assistance does not pay on the student's behalf.)

On the other hand, if the school does not actually charge the student for tuition and fees (either because it is prohibited from doing so under the JTPA contract, or for other reasons), then no tuition and fees component would exist for the Pell COA. Even if there is no tuition and fees component, the student's COA includes the other components described in Chapter 2.

Alternate schedule

Note that if there is no tuition and fees component, the school would be required to use the Alternate Federal Pell Grant Schedule for programs with tuition charges of less than $150 during 1997-98. At the time this handbook went to print, the payment and disbursement schedules for 1998-99 had not been developed. The Department expects to publish the "Dear Colleague" letter containing those schedules in February 1998.[2]

Reimbursement contracts

Certain JTPA contracts operate on a reimbursement basis; that is, the student must fulfill the terms of the contract before JTPA will reimburse the school for tuition and fee costs. If the student does not fulfill the terms of the contract, the school is left with an unpaid tuition and fees charge. The school is not permitted to hold the student liable for the unpaid tuition and fees. Contracts are established this way to offer schools an incentive to properly train and place students enrolled in the training programs. As mentioned previously, if a tuition and fees charge is included in a Pell recipient's COA, the student is liable for any outstanding charges if JTPA does not pay them. Therefore, schools that enter into reimbursement contracts **must remove the tuition and fees component** from the Pell COA because, under these contracts, schools are prohibited from holding the student liable for outstanding charges.

REMEDIAL COURSEWORK

A noncredit remedial course is one for which the school allows no credit toward a degree or certificate. A reduced-credit course is one for which the school gives some credit toward the degree or certificate, but not as much as would normally be given based on the workload required by the course.

Enrollment status

When figuring enrollment status, the school must include any reduced-credit or noncredit remedial coursework designed to increase the student's ability to pursue his or her program of study. Chapter 2 explains how to include these courses in enrollment status, as well as the limits on the amount of remedial coursework that can be included.

ESL as an eligible program—34 CFR 668.8(j)

Schools may pay Pells to students enrolled in ESL programs if such programs consist solely of ESL coursework, meet the definition of an eligible program (see Chapter 3, Section 1), and enroll only undergraduate students who need the program to be able to use already existing knowledge, training, or skills. To apply for a determination of the eligibility of an ESL program, the school should contact the Institutional Participation and Oversight Service.

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[2] If the maximum Pell is increased to $3,000, the school would be required to use the Alternate Federal Pell Grant Schedule for programs with tuition charges of less than $300.

TERMS WITH CLOCK HOURS

The amount of a Pell for a student enrolled in clock-hour term programs is calculated under Formula 4, as discussed in Section 2. The payment period for these programs is no longer the academic term. Instead, the payment periods are determined in the same way as for nonterm clock-hour programs. The student must complete all the clock hours in the payment period before receiving any more Pell funds. Previously, if a student did not complete all clock hours scheduled for a term, the subsequent payment period was shortened to realign the payment periods with the terms. As of July 1, 1997, the subsequent payment period was no longer shortened. Instead, each payment period contains the same number of clock hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

Eileen enrolls in a 1350 clock hour program at Ivers Community College. The program is offered in three terms, each of which is 15 weeks of instructional time. The academic year for this program is 900 clock hours and 30 weeks of instructional time. Each payment period has 450 clock hours.

	1998-99		1999-2000
	Term 1	**Term 2**	**Term 3**
payment periods	450 clock hours	450 clock hours	450 clock hours

Eileen enrolls for 450 clock hours in each term in the 1998-99 award year; her annual award is $2,450. Ivers determines (using Formula 4) that Eileen will receive $1,225 for each of the two terms in this award year. Eileen completes only 400 clock hours in the first term. She will not receive her second payment until she completes the remaining 50 hours from the first term in the second term. The second and third payment periods will still be 450 clock hours, and will not line up with the terms:

	1998-99		1999-2000
	Term 1	**Term 2**	**Term 3**
payment periods	450 clock hours	450 clock hours	450 clock hours

Under previous rules, the school would have shortened the second payment period and calculated the award for that payment period again.

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Section 4 Disbursing Federal Pell Grant Awards

This section explains how payments can be made and when the payments can be made. A school must pay **any** student who is eligible (including payment for less-than-half-time students), and must make payments for **all** eligible periods of enrollment (including remaining eligibility for students in summer school terms).

All eligible students must be paid for all eligible enrollment

On November 29, 1996, the Department published revisions to the regulations regarding cash management, which provide uniform rules for disbursing and managing funds for all programs (see Chapter 3, Section 3 for more information).

SCHOOL CERTIFICATION AND STUDENT ELIGIBILITY

School certification

The school is required to certify, when submitting Payment Data through the Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), or the Floppy Disk Data Exchange, that the information about the student is accurate and complete. The procedures used are slightly different for the three systems.

Under RDE, the aid administrator must sign the Certification statement that is part of the transmittal included with the tape. Under EDE, there is a signature flag in the record. Under the Floppy Disk Data Exchange, the school will be asked to acknowledge the certification as part of the batch generation process.

The school is liable for incorrect payments made to the student because of a mistake by the school. The financial aid administrator is subject to a $10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements.

Reviewing student's eligibility

The school must review the student's eligibility at the time it is going to make a payment. For instance, a student may have been making satisfactory academic progress when award letters were mailed in the spring term, but may no longer be making progress when he or she comes to the business office for payment at the beginning of the fall term. The

school must make sure the student still meets the eligibility requirements for the Pell (as discussed in Section 1 of this chapter), and that the appropriate documentation is retained.

METHODS OF DISBURSEMENT

Credit to account or direct payment

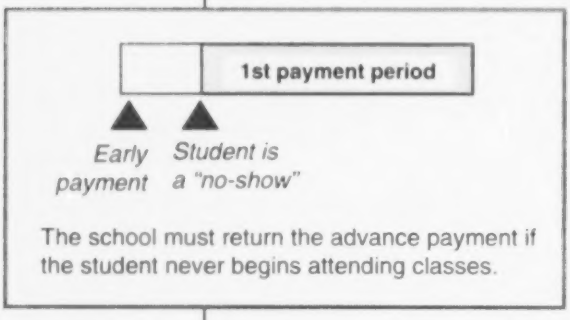
There are several ways a school may pay a Pell to a student: crediting the student's account for any outstanding education expenses, paying the student directly by check or EFT, or dispensing cash to the student for which it gets a signed receipt. The school must have authorization from the student to pay him or her by EFT (see Chapter 3 for more about this requirement). Usually, a school will use the Pell to credit the student's account for any unpaid charges for tuition and fees (and room and board, if provided by the school), and then will pay the remaining Pell (if any) to the student for remaining living expenses.

Limitation on credit to account

The school may use the Pell to pay other charges at the school only if the student gives written authorization. The school cannot require the student to authorize payment of such charges. As with any SFA funds, payments may be made only for education expenses.[1] If a credit balance remains after the Pell is credited to the student's account, the balance must be returned to the student unless the student provides written authorization for the school to hold the funds. (See Chapter 3, Section 3 for more on authorizations and credit balances.)

Early payment option

The cash management regulations permit a school to pay a student before the beginning of a payment period if the student has already registered for that payment period. The earliest a school may disburse a Pell is 10 days before the first day of classes in the payment period. Remember that in a clock-hour program or a nonterm credit-hour program, the school may not pay a student until he or she has completed the coursework for the previous payment period. As of July 1, 1997, this rule also applied to credit-hour programs offered in nonstandard terms: the school cannot disburse before the student completes the previous payment period.


1st payment period
Early payment
Student is a "no-show"
The school must return the advance payment if the student never begins attending classes.

If the school disburses the Pell before the payment period begins, but the student never actually begins attending any classes, the school must reimburse the Pell account for that payment. (If the student begins attending some but not all of his or her classes, the school may have to recalculate the award—see Section 5.)

[1] Pell funds may not be used to repay a student's loan. Loan payments are not considered an education expense.

FIRST PAYMENT OPTIONS

Verification
34 CFR 668.58

In general, schools are not allowed to make a disbursement of a Pell award without a valid output document. However, the school may make an interim disbursement to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). See *The Verification Guide* for more information.

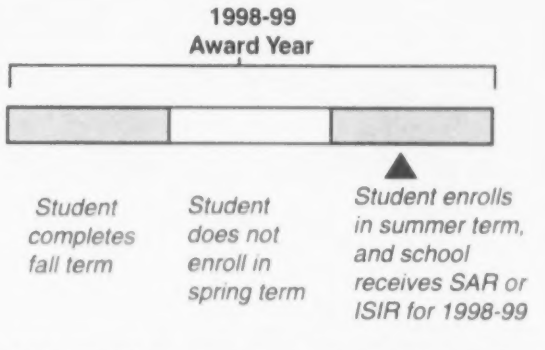
Must have valid output document

If a student is not selected for verification, the school may not make a disbursement to the student until it has a valid output document. If the student needs to make corrections to his or her data, or the financial aid administrator wishes to use professional judgment to adjust the student's data, the student must submit the SAR for reprocessing (using Part 2) or the school must make the changes through EDExpress and receive the new output document before making a disbursement.

TIMING OF PAYMENTS

34 CFR 690.76(a)

The school may use its discretion in disbursing funds within a payment period to best meet a student's needs. For instance, some schools pay students on the first day of class in a payment period, while others wait until the end of the add/drop period. Other schools pay the student in monthly installments to help meet living expenses throughout the payment period. (Note that if the school rations payments to students by crediting the entire payment for the payment period to the student's account and making periodic payments to the student from these funds, it must have the student's written authorization.) In all cases, however, the full amount due the student for a payment period must be disbursed to the student before the end of the payment period.


1998-99
Award Year
Student completes fall term
Student does not enroll in spring term
Student enrolls in summer term, and school receives SAR or ISIR for 1998-99

Even if the school does not receive the student's output document until late in the award year, the student can be paid for previous eligible payment periods in the same award year (in this case, the fall term, assuming that the summer term is part of the 1998-99 award year).

Retroactive payment

The school may pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, if the school receives a valid output document for the student while he or she is enrolled as an eligible student

in the summer term, but the student was also enrolled and eligible for payment in the fall term, that student must be paid retroactively for the fall term. However, the fall payment would be based on the hours **completed** by the student for that term. If the student had enrolled full time at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive payment must be based on half-time status.

A school may make any retroactive payments in one lump sum to decrease the administrative workload.

Notification of payment

The school must notify the student of the amount he or she will be paid and the method of payment (by credit to the student's account or directly to the student). If the school will be paying the student by check, it must tell the student when the check will be available and where to go to pick it up. (It is helpful to include the cashier's office hours in any notification.)

Releasing a check— 34 CFR 690.78(c)

If the student does not pick up the check on time, the school must still make the check available to the student for 20 days after the student's last day of enrollment for that award year. (Instead of holding the check for that period, the school may cancel the first check and issue a new check when the student requests payment.)

> A student attends the fall term at a community college. The college credits the student's account for tuition and fees early in the term and sends a letter to the student to notify her of the payment. However, at the end of the term, the student still has not picked up the check.
>
> The school **must** release the check to the student if she claims it within 20 days after the end of the fall term. If the student has withdrawn from school but resumes enrollment later in the award year, the school must again make the payment for fall living expenses available to her.

If the student has not picked up the check at the end of the 20-day period, the school may credit the student's account **only** for outstanding charges for tuition and fees and room and board for the award year. If the student contacts the school to request the check more than 20 days after the student's last day of enrollment, the school may pay the student through the next payment period (if it chooses) even though the student is no longer enrolled. The school may mail the check to the student rather than waiting for him or her to return and pick it up.

Payments to students who have completed a program

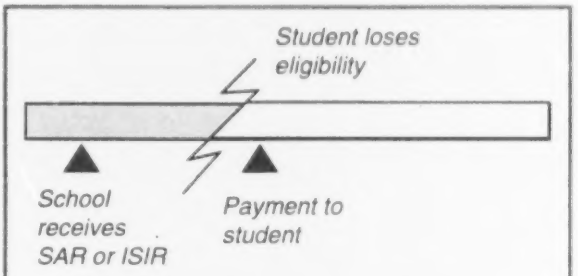
If there is a delay in a school receiving its Pell funds, some students could complete their program or academic year before receiving their final Pell payments. If this happens, as soon as the school receives its funds, it must pay any student who has a valid output document. Even though these

students would receive their payments late, no regulations would be violated given that the students had previously met all the requirements for payment.

Payments to students who have lost eligibility—34 CFR 668.164(g)

Ordinarily, a student who has lost his or her Pell eligibility before receiving a disbursement cannot be paid. However, in some cases a school can pay a student if it received the student's valid output document while the student was eligible for payment, but the student lost eligibility before his or her account was credited or he or she received a payment. The regulations published on 11/29/96 provide a unified treatment of such disbursements; these disbursements are called late disbursements. As previously for Pell, the school must have received the student's valid output document before the student became ineligible, and may only pay the student if the funds are used to pay educational costs incurred while the student was enrolled and eligible. The regulations now specify that in order for the school to make a late disbursement the student must be ineligible solely because he or she is no longer enrolled. In addition, the school must make the disbursement within 90 days after the student becomes ineligible. A late Pell disbursement can be made by crediting it to the student's account to cover institutional charges or by paying it directly to the student (in cash or by check or EFT) for noninstitutional costs, such as living expenses.

For example, a student submits a valid SAR during the second week of classes and is eligible for payment at that time. But by the time the check is processed for the student and she has been notified to pick up the check, she has withdrawn from school.



A student who loses eligibility after the school receives a output document can still be paid, but only up to the amount that could have been used for educational purposes before the student lost eligibility.

The school can pay this student if it makes the disbursement within 90 days of the student's withdrawal. The aid administrator must determine what unpaid educational costs for the enrollment period still exist (that is, what costs have not been paid by the student or other sources of aid). (See Chapter 3, Section 3 for more information on late disbursements.)

STUDENTS WHO WITHDRAW AND LATER RETURN

Returning student may receive refunded amount

A student who withdraws but returns to the program in the same award year may be paid the amount of any refund that was returned to the Pell account. For example, a student is given a Pell disbursement of $875 for the first of two payment periods but then withdraws in that payment period. The school calculates a refund and returns $400 to the student's Pell account. If the student returns in the same award year, the student must be paid the $400 when he or she re-enrolls in the program. When the student completes the payment period, he or she would be eligible for the Pell disbursement for the next payment period.

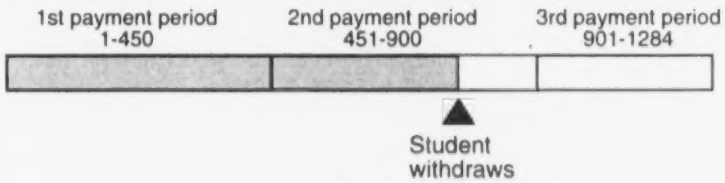
Incompletes at term schools

Suppose a student enrolled for the fall semester withdraws before the semester is over, receiving all "Ws" before the school receives his or her output document. When the student re-enrolls for the spring semester, the "Ws" are changed to "incompletes." When the student submits a valid output document, he or she can be paid retroactively for the fall semester. The understanding is that the student would have the opportunity to complete the fall courses.

Retaking hours and courses

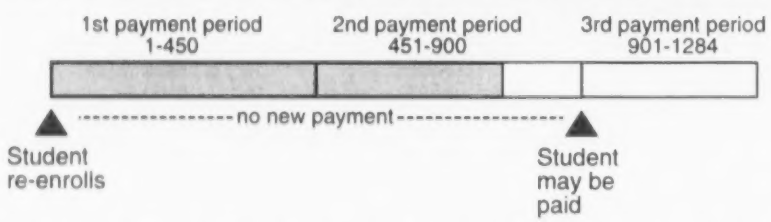
In general, students at term-based credit-hour schools may receive Pell funds for retaking coursework. The situation is more complicated at clock-hour or nonterm credit-hour schools. If a student withdraws from a clock-hour program or nonterm credit-hour program but returns to it in the same award year, or in the subsequent award year, the student will be held accountable for the remaining clock or credit hours in the payment period before the next disbursement of the Pell can be made. However, in the case of a student who returns two years after withdrawing, the school may pay the student without waiting until the student has completed the hours from the previous period of enrollment. The following example will clarify the eligibility of students for Pell disbursements when they are retaking hours for which they have already been paid.

Dean enrolled in a 1,284-clock-hour program at Sarven Technical Institute in September. The school defined the academic year as 900 clock hours. Dean was paid for the first payment period (1–450) and second payment period (451–900). He withdrew due to illness after completing 768 hours (first payment period plus 318 hours of second payment period).



When Dean recovered, he had to wait until the next enrollment group in September of the following year. He completed the entire course, including the repetition of the first 768 clock hours. He was making satisfactory progress and was otherwise eligible.

When Dean withdrew, Sarven made a Pell refund for those clock hours that he had not completed. However, because Dean returned in the following award year he could not receive the amount that had been refunded as a Pell payment. And, as he did not complete the entire clock hour program, he could be paid only for those clock hours for which he was not already paid (that is, clock hours 901–1284). Note that if Dean had re-enrolled in the same award year, he could have received the amount that the school returned to the Pell account.



Suppose instead that the school did not make a Pell refund when Dean withdrew. Dean still may begin to receive Pell funds only after he has completed the 900th clock hour (clock hours 901-1284). Even if he picked up the program at the 769th clock hour, the situation would be the same. In this case, even if Dean had re-enrolled in the same award year, he would not receive Pell funds until completing the 900th clock hour (because there was no refund).

Assume that instead of returning in the next award year, Dean returned two years later. He could then be paid for the entire program because, as noted previously, a student who returns two years after withdrawing is not held accountable for remaining clock hours.

If the student receives his or her Scheduled Award for a clock-hour program, completes the entire program, and later decides to retake the program, the student could again be paid for the entire program.

The difference in the treatment of a student at a clock-hour or nonterm credit-hour school versus a term-based credit-hour school is that at a term-based credit-hour school, a student may be paid to repeat a course and does not necessarily have to complete the program before he or she can be paid for that course. Generally, at a clock-hour or nonterm credit-hour school, the student can be paid again for clock hours or credit hours that he or she has already completed at that school only if he or she has completed a program and re-enrolls to take that program again or to take another program.

Section 5 Recalculating Federal Pell Grant Awards

The Pell award may have to be recalculated if the student's information changes after the initial calculation or disbursement. Of the significant factors that go into calculating a Pell award, the three that are most likely to change are the EFC, enrollment status, and COA. The Federal Pell Grant Program regulations specify when a school must recalculate an award to take these changes into account. The recalculation may require adjustments in the student's subsequent payments, or even repayment of the entire grant, as discussed in Section 6 of this chapter.

CHANGE IN THE EFC

Types of EFC changes

A student's EFC may change during the award year for three reasons:

1. *Corrections.* The student may have to correct an error on the original FAFSA or on the previous SAR or ISIR. This frequently occurs as a result of verification, but it may also be a result of the student's own review of his or her data. If the student has already been paid based on the original EFC, the award will have to be recalculated.

2. *Updating.* Students selected for verification are required to update three projected data elements if they change for a reason other than a change in marital status: dependency status, household size, and the number of family members in postsecondary education.

3. *Professional judgment.* The aid administrator may, on a case-by-case basis, adjust one or more of the data elements used to calculate the EFC. The aid administrator may need to adjust the data elements during the award year to reflect a student's changed circumstances: For example, if a wage-earning parent dies after the student's first semester, the aid administrator could adjust the adjusted gross income in the EFC formula to reflect the loss of income.

Recalculation based on valid SAR or ISIR

Exception: verification extension—34 CFR 668.60(c)(1)

If the school receives an output document with an EFC different from the one used for the payment calculation, the school must first decide which document is valid. If the new information is the valid information, in most cases the school must recalculate the student's Pell award for the entire award year based on the new EFC. However, there is one exception: A student selected for verification cannot **increase** his or her eligibility if the school obtains the corrected output document during the "verification extension" period (60 days after the student's last day of enrollment, not to extend beyond August 31 following the end of the award year). For example, if the student submits a reprocessed SAR during the extension period and the SAR has a lower EFC than the previous SAR (thereby increasing the student's eligibility), recalculation is **not** permitted. The student would be paid based on the **higher** EFC on the SAR that was submitted earlier. However, if the corrections **reduce** the student's eligibility (that is, if the reprocessed SAR had a higher EFC), then the award must be calculated based on the reprocessed SAR.

CHANGE IN ENROLLMENT STATUS

Pell payments to students in clock-hour programs and programs without terms are always based on the full-time Payment Schedule; therefore, no recalculation is necessary for changes in the hours taken by students in these programs.

Required recalculation: student does not attend class

In a term program that uses credit hours, a school must calculate a student's payment for each term based on the enrollment status and length of enrollment for that term. If a student attended full time for the first term and then enrolled half time in the second term, the school must use the half-time enrollment status to adjust the student's payment for the second term. In addition, if the student does not begin attendance in all of his or her classes, the school must recalculate the student's award based on the lower enrollment status. For instance, a student registers for a full-time course load (15 hours) but only begins attendance in three classes (9 hours); in this case, the student's Pell must be recalculated based on the lower enrollment status.

Optional recalculation: enrollment change within a term

The regulations do not require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, the school may have a policy of recalculating an award if a student's enrollment status changes at any time within a term. If such a policy is established, it must be applied consistently to all students: If the school chooses to recalculate for a student who changes from half time to full time, it must also recalculate for a student whose enrollment status decreases. Please note that if the school establishes a policy allowing optional recalculations, this policy must be in writing.

A school may include as part of its policy that it will recalculate a student's award only when the change in enrollment status occurs before a specific date in the payment period. For example, a school may establish a policy that it will recalculate Pell awards only for enrollment changes that occur up to the "add/drop" date of a term. A school is not required to establish such a date; it may continue to have a policy under which it recalculates for changes throughout the entire term, or may continue to perform only the required recalculations.

Payment when enrollment changes within a term

If a school does not establish a policy for recalculation within a term, a student who begins attendance in all classes would be paid based on the initial calculation, even if his or her enrollment status changes before the payment is made. For instance, a student registers full time, submits a SAR, and begins attending all of her classes. The financial aid administrator calculates a full-time award but, by the time the student comes to pick up the check, she has dropped to half-time enrollment. The student is still paid based on full-time enrollment, as long as she is still eligible for the payment. On the other hand, if the student did not submit her SAR until after she had dropped to half-time enrollment, the Pell calculation would be based on the student's enrollment status at that time (half time).

(A more drastic change in enrollment status, when the student withdraws from school completely, is discussed in Chapter 3, Section 4, "Refunds and Repayments.")

CHANGE IN COST OF ATTENDANCE

COA must be for full year

Schools are not required to recalculate Pell awards for COA changes during the award year. However, if the school recalculates Pell awards for a change in enrollment status, it **must also** take into account any changes in the COA at that time. For example, if a student enrolls full time for the first semester and then drops to less-than-half time during that semester, the student's COA will change, because only certain cost components are allowed for less-than-half-time students. If it is the school's policy to recalculate for the enrollment change, it must use the cost for a less-than-half-time student **for a full year** to calculate the student's less-than-half-time award. The school cannot combine the two costs or average them.

COA changes between payment periods

Some schools choose to recalculate awards when the COA changes from one payment period to the next—for example, because of changes to the student's tuition and fee costs, or because the student's living situation changes (such as when the student moves off campus). A school may recalculate Pell awards for cost changes within the award year, as long as the recalculation policy is carried out for all students whose costs change.

COA changes within a payment period

Some schools also recalculate financial aid awards when a student's costs change **within** a payment period. For instance, if a student with no dependents moves from a dormitory to off-campus housing at midterm, the school may wish to recalculate the student's award for that payment period. Again, for Pell purposes, such a policy is acceptable if it is carried out for all students whose costs change within the payment period. Note that a school may establish a policy of recalculating for cost changes from one payment period to the next and, at the same time, have a policy not to recalculate for cost changes **within** a payment period.

Please keep in mind that the school may not recalculate the payment for a payment period that took place **before** the cost change. For instance, in the example above, if the student lives in the dormitory during the first quarter and then moves off campus for the second and third quarters, the recalculation would only affect the payments for the second and third quarters.

section 6 Overpayments and Overawards

OVERPAYMENTS

A Pell overpayment occurs any time the student receives a payment that is greater than the amount for which the student is eligible. Examples of the four most common types of overpayments are given below.

Types of overpayments

1. Student error, such as failing to report the spouse's income on the application.

2. School error, for instance, when a student's award is taken incorrectly from the Payment Schedule, or when the school pays a student who is not making satisfactory progress.

3. Required recalculations, such as when a student never begins attending class or does not begin attending all of his or her classes, or withdraws from school after receiving a disbursement for living expenses. (See "Refunds and Repayments" in Chapter 3 for repayment calculation.)

4. Optional payments, for instance, when the school makes an interim disbursement to a student selected for verification, but the student never completes verification.

34 CFR 690.79(a)(2)

No matter what the reason for the overpayment, it must be repaid. If the overpayment is the result of a school error or an optional payment, the school must repay the Pell account whether or not it succeeds in collecting the overpayment from the student.

Continuing payments after overpayment

If a school has made an overpayment to a student, it may continue to make payments to that student under certain circumstances:

- The overpayment can be eliminated within that award year by reducing the student's subsequent Pell payments during the award year;

- The school repays the overpayment itself. The student would then owe an institutional debt, not a Pell overpayment, and would be eligible for further Pell payments;

- The student makes arrangements to repay that are satisfactory to the school;

- The student completely repays the overpayment.

Note that if the overpayment is due to the school's error, the school is required to repay the overpayment promptly if it cannot collect the overpayment from the student. As noted above, once the school repays the overpayment, the student is eligible for further aid.

If the overpayment is not the school's fault (for instance, the student made a mistake on the application, or the school had no information indicating that the student attended another school), the school may, but is not required to, repay the Pell account for the student. If the school does not repay the overpayment, and the student will not agree to repay, the school is not liable to the Department, but must make a reasonable effort to contact the student and collect the overpayment.

Note that a school may not reduce a student's Pell award from the current award year to eliminate a Pell overpayment from a previous award year. For example, if a student received an overpayment in 1997-98, a school may not reduce any portion of the student's 1998-99 Pell award to eliminate the overpayment.

FINANCIAL AID TRANSCRIPTS

If a student transfers from School A to School B and receives an overpayment at School B because School A completed the student's financial aid transcript improperly, School A may be subject to a fine or other adverse action. School B will not be liable for the overpayment but is responsible for attempting to collect it from the student.

34 CFR 668.19(a)(3)(ii)

If School A requests a financial aid transcript from School B but has not received it, School A may make a Pell disbursement to the student for only one payment period. School A would not be liable for an overpayment unless it made payments for more than one payment period.

School has closed

If School A cannot obtain a financial aid transcript from School B because that school has closed, School A may get the financial aid history from NSLDS or request assistance from the Department by writing to—

Federal Student Aid Information Center
Financial Aid Transcript Request
P.O. Box 4129
Iowa City, Iowa 52244

(See Chapter 2, Section 2 of this handbook for more information on financial aid transcripts.)

REPORTING OVERPAYMENTS COLLECTED

If a school collects or repays an overpayment for the current award year, it reports the decrease in the student's award using its normal reporting method (EDE, RDE, or Floppy Disk Data Exchange). The school may also use these methods to report a decreased award after the general September 30 payment data submission deadline; for the 1998-99 award year, decreased award reports will be processed at least through January 31, 2000.

Reporting an award decrease after September 30

For reporting decreases after September 30, the school may also use the "Decrease Award Report," provided in "Dear Colleague" Letter P-97-3, dated October 1997. The school should use a separate report for each award year for which it needs to report an award reduction; the school's total Pell expenditure figure must always be included. The business office must also report its corrected total Pell expenditure figure through EDCAPS/GAPS.

Overpayments from a prior award year

If a student repays a Pell overpayment for a prior award year, the school must deposit the funds in its institutional federal funds or Pell account and report the decrease in the student's award to the Federal Pell Grant Program. The funds can then be used for current year disbursements. See Section 7 of this chapter for more information on reporting decreased awards.

PROBLEMS IN COLLECTING OVERPAYMENTS

Referrals to the Department

The school must notify the Department's Debt Collection Service (DCS) if it has serious difficulty in collecting an overpayment from a student: for example, if the school cannot contact the student or the student is uncooperative, or if the school establishes a repayment plan and the student refuses to pay or discontinues payments. If the school is unable to

recover or eliminate an overpayment that is not the school's fault, the school must refer the student's case to DCS for collection. (Referral procedures for overpayments are discussed in the *Verification Guide*.)

Effect on eligibility for other SFA Programs

After the Department has received the school's information, collected the overpayment from the student (if possible), and resolved the case, it will notify the school by letter of the results. Please note that until the Department has reached a final resolution of the referred case, the school may not make any further payments to that student under any SFA Program.

A student who owes a Pell overpayment that has been reported to the Department and who subsequently submits a FAFSA will be informed that he or she is not eligible for additional federal aid until the overpayment is repaid in full. NSLDS will show for all such students that a Pell overpayment is owed to the Department. A "C" will be printed on the output document next to the EFC to indicate that the school must resolve the issue before paying the student.

Beginning in January 1998, the Department expects that schools will be able to report Pell overpayments electronically through NSLDS. The Department will issue further guidance on this topic at a later date in the form of a "Dear Colleague" letter. When issued, this up-to-date information will also be available on the SFA BBS.

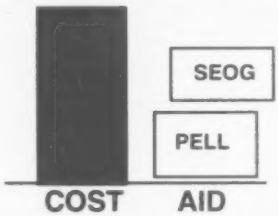
PREVENTING OVERAWARDS

The Pell is regarded as the first source of assistance to the student and thus is not adjusted to take into account other aid, even if the student's combined aid package exceeds the student's need.

Adjusting campus-based aid

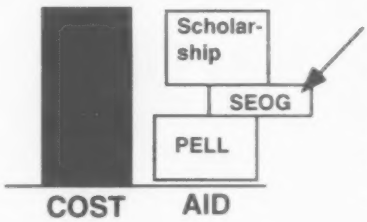
The aid administrator is responsible for preventing an overaward by adjusting the aid the school controls. For example, if the student is receiving campus-based aid in addition to a Pell, the campus-based aid must be adjusted to prevent an overaward. The sum of the student's EFC, Pell, campus-based aid, and any other aid and resources may not exceed the student's COA. (See Chapter 2.)

Bill is awarded a $2,200 Federal Pell Grant and a $1,500 SEOG to attend Kaler Junior College and enrolls in the fall term. His cost of attendance is $4,500.



The total aid awarded is $3,700, well within Bill's need (his EFC is 0).

However, the school learns later in the term that Bill will receive a $1,500 art scholarship from a foundation outside the school. The scholarship is not reduced if the student receives other aid.



The school must reduce Bill's SEOG to prevent an overaward. (Otherwise, his total aid, $5,200, would exceed his cost of attendance [$4,500] by $700.)

As mentioned in Section 4, if the student's aid package includes a loan and the package must be adjusted to prevent an overaward, the Pell may not be used to pay back the loan—a loan repayment does not constitute an educational expense.

Estimated financial assistance

In addition to adjusting any campus-based aid, schools are required to include an estimate of the student's Pell eligibility as part of the student's estimated financial assistance (EFA) when certifying a Federal Stafford or Direct Loan application. (See Chapters 10 and 11 for further information.)

NCAA rules for student athletes

The National Collegiate Athletic Association (NCAA) has rules limiting the amount of aid student athletes may receive. However, the law does not permit schools to adjust students' Pells. **Student athletes must receive the full amount of any Pell for which they are eligible.** If the student's potential aid plus the student's Pell exceeds the NCAA limits, the school must reduce any aid over which it has control, **not** the Pell.

Reporting Disbursements

This section explains how to report Pell payments to the Department through the Recipient and Financial Management System (RFMS) and how this reporting system affects the school's authorization.

You should contact RFMS Customer Service at 1-800-4-PGRANT (1-800-474-7268) if you

- have questions about a school's Pell account (obligations); Pell Grant systems (including EDE, RDE, or Floppy Disk processing or ADP services pertaining to these media); or the Institutional Access System (IAS);
- are looking for general Pell payment information, such as the school's current authorization and the status of batches; or
- want to request specific Pell data and documents.

Pell authorization

The authorization for a school is the maximum amount the school may draw down from the Education Central Automated Processing System/Grants Administration and Payments System (EDCAPS/GAPS). At the beginning of each award year, a school is given an initial authorization based on an estimate of the Pell funds the school will need to cover its first payments. As the award year progresses, the authorization for the school will be adjusted based on the actual number of eligible Pell recipients the school reports to the RFMS.

The RFMS establishes the school's initial authorization and notifies the school of the authorization. As the school reports disbursements through RDE, EDE, or Floppy Disk Data Exchange, RFMS makes any necessary adjustments to the authorization, and notifies EDCAPS/GAPS so that funds will be available to the school. The RFMS enables the Department to track a school's need for funds as the award year progresses and adjust the school's authorization on that basis. The system also provides documentation to the school for reconciling the school's records of total expenditures with the Department's records of eligible students paid by the school. (This documentation is the Student Payment Summary—see page 4-87.) The Pell funds that the school reports to EDCAPS/GAPS as

expended must equal the total payments to eligible Pell recipients at the school, as shown by the records for each student.

REPORTING METHODS

Schools must use one of three different automated methods to report payment information to the Department. Information describing these methods is provided to schools through "User's Guides."

Electronic Data Exchange

The most widely used automated method is the *Electronic Data Exchange* (EDE), Electronic Payments Service, which allows schools or their service agents to use the school's computers to enter and transmit initial payment data and changes to previously reported payment data. The Department supplies personal computer software. Information is transmitted electronically by telephone line to a communications network, which in turn transmits the information to RFMS, thus greatly speeding up the reporting and response time.

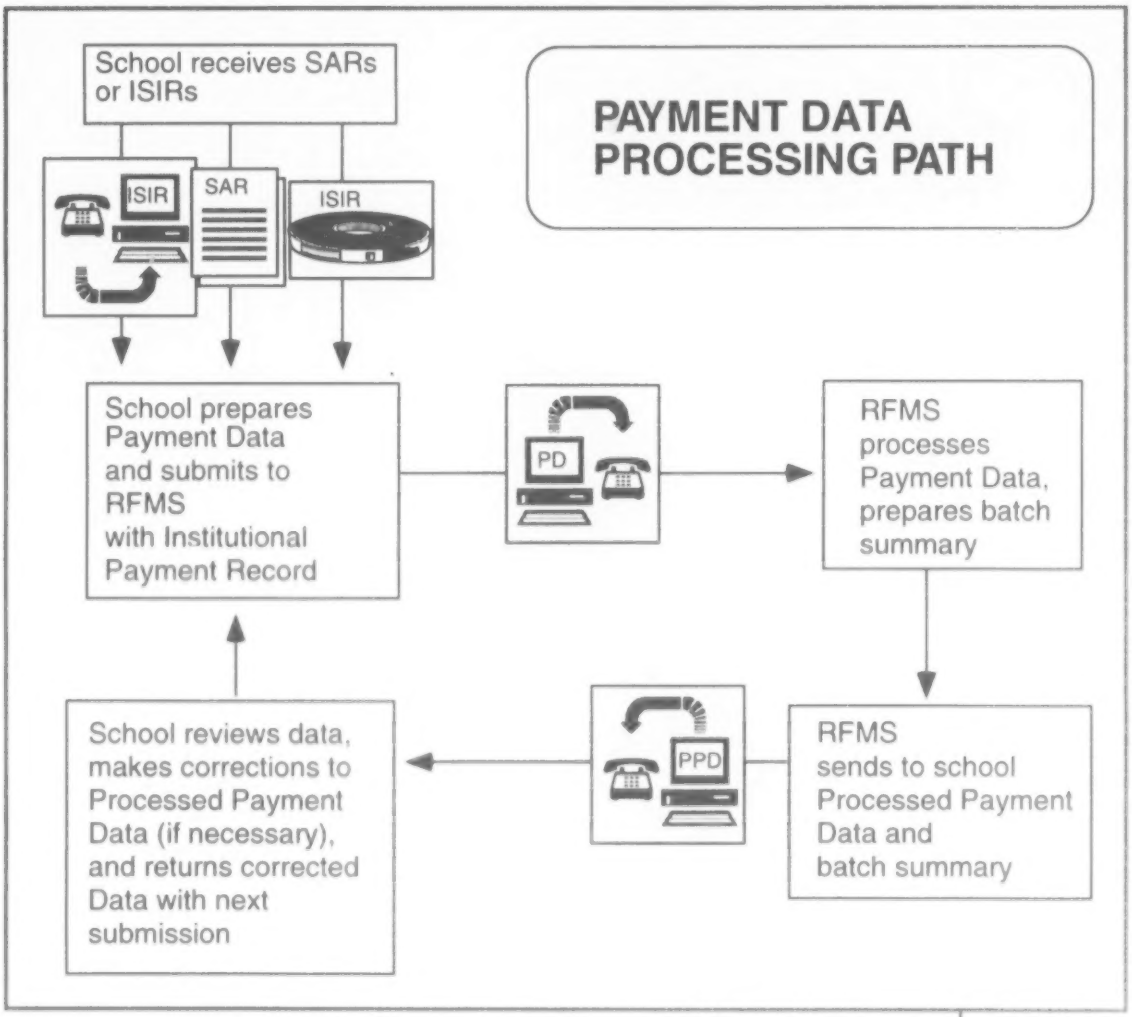
Recipient Data Exchange

The second automated method, used especially by schools with large numbers of recipients, is the *Recipient Data Exchange* (RDE). The school mails a magnetic tape or cartridge to RFMS, which processes the information and returns the processed data on tape or cartridge, as the school requests.

Floppy Disk Data Exchange

The third automated method is the *Floppy Disk Data Exchange*, which permits schools to submit payment information on microcomputer diskettes. Schools using this method submit Payment Data batches on either $5\,1/4$" or $3\,1/2$" diskettes.

All three methods transmit the same basic student information. The only difference is the way in which the information is sent: by magnetic tape/cartridge, by telephone line, or by diskette. As mentioned earlier, each school receives a "User's Guide" containing detailed information on the automated system used by that school. In the rest of this section, we will provide a general description of the data reporting process. Schools should refer to the appropriate "User's Guide" for specific information about the records used.


School receives SARs or ISIRs
ISIR
SAR
ISIR
PAYMENT DATA PROCESSING PATH
School prepares Payment Data and submits to RFMS with Institutional Payment Record
PD
RFMS processes Payment Data, prepares batch summary
School reviews data, makes corrections to Processed Payment Data (if necessary), and returns corrected Data with next submission
PPD
RFMS sends to school Processed Payment Data and batch summary

PAYMENT DATA

Payment Data is the term used to refer to the electronic or magnetic payment record used in reporting Pell payments. The record contains the student's EFC, COA, enrollment status, and disbursement information. After the school receives an output document, the school completes the Payment Data by filling in award information. The school periodically sends Payment Data for its students to RFMS in a batch, along with the Institutional Payment Record.

The Institutional Payment Record establishes certain basic demographic information about a school, and accompanies each batch of Payment Data/Processed Payment Data that schools submit to RFMS during the award year, summarizing the information about the data in that batch.

Carefully completing the Payment Data ensures that the school's Pell expenditures are accurately reported, which in turn smooths the process of acquiring additional funds, if necessary. A school must submit at least one acceptable record for each Pell recipient at the school. When a school receives a revised output document that it accepts as valid for payment, it should submit the new Payment Data record with its next batch. RFMS's award data processing system will only accept one award per recipient per attended campus. RFMS will **automatically** replace the previously accepted award data with the data reported in the revised Payment Data record. Therefore, the school should not submit the Processed Payment Data record corresponding to the original Payment Data record in an effort to reduce the student's previously accepted award amount to $0.

One record per Pell recipient

SPECIFIC PAYMENT DATA ITEMS

Academic Calendar

The academic year categories are defined as follows:

Credit hour (nonstandard term). The school uses nonstandard academic terms but measures progress by credit hours or units.

Quarter. The school uses standard term quarters and measures academic progress by quarter hours.

Semester. The school uses standard term semesters and measures academic progress by semester hours.

Trimester. The school uses standard term trimesters and measures academic progress by semester or trimester hours.

Clock hour. The school measures academic progress by clock hours.

Credit hour without terms. The school does not use terms, and measures academic progress by credit hours.

Verification Status

This item must be completed. If this item is blank, and the student was selected for verification by the CPS, RFMS assumes the student was paid under "W" ("Without documentation"). Payment will be limited to one-half of the student's Scheduled Award until the "W" is corrected. In addition, the school's Pell authorization will be reduced to $0 during the final review of its account for all students whose status is still "W" at the end of the award year.

The financial aid administrator should enter "S" ("Selected, not verified") when the student has been selected for verification, but the school does not verify that student's information because it has reached the 30% verification limit or because it participates in the Title IV Quality Assurance Program.

Note that Payment Data resulting from a first transaction (Transaction 01) will be rejected if "R" ("Reprocessed") is entered. See *The Verification Guide* for further explanation of the status codes and the 30% verification limit.

Term Programs Only (enrollment status)

Complete this item only if the academic calendar uses terms (standard or nonstandard). The enrollment status code "Other" is used when the student's enrollment status is "mixed"—for instance, when a student attends full time one term and half time the next, or when the student attends an additional (optional) term within the award year. An example would be a student attending both semesters of the regular academic year as a half-time student and then also attending a summer term as a half-time student.

Clock Hour Programs, or Credit Hour Programs without Terms

There are two items under this heading, "Hours/credits expected to complete" and "Hours/Credits in program's academic year definition". These items are completed only for clock-hour or nonterm credit-hour programs. For the first item, report the hours or credits the student is expected to complete in all payment periods occurring in the current award year. If the school is paying the student in the current award year for payment periods that are in progress or are already completed, it must be sure to include those payment periods in this total. The student cannot be paid for more than one academic year of work in one award year.

For the second item, the hours or credits reported must be at least the minimum hours or credits specified in the regulations (900 clock hours, 24 semester hours, or 36 quarter hours, for example.)

Term and Nonterm Programs not Using Formula 1

The two items under this heading, "Weeks of instructional time" and "Weeks in program's academic year" are used by programs not calculating Pell awards using Formula 1. (See Section 2 of this chapter for more information about the formulas.) For the first item, for term-based, credit-hour programs (programs using Formulas 2, 3, or 5B), enter the total number of weeks of instructional time in all payment periods in the

current award year in which the student will be enrolled and paid.[1] For programs using Formula 4, enter the number of weeks of instructional time required for **most** full-time students to complete the hours in the program or academic year, whichever is less. For programs using Formula 5A, enter the number of weeks of instructional time for a student to complete the hours in the program or academic year, whichever is less. Note that the weeks of instructional time might not be the same as the number of calendar weeks (see Chapter 3 for more information).

For the second item, the number of weeks must be at least the minimum specified in the regulations (30 weeks of instructional time unless the school has received a waiver from the Department).

All Programs (Payment Methodology)

In this item, select the formula used to calculate the student's award.

Amount Paid to Date

Enter the actual amount the school has paid the student (either by check or credit to the account) as of the date the Payment Data record is completed. If the school has not yet paid the student but needs to submit the Payment Data, the financial aid administrator should report "0" for payment.

Remaining Amount to Be Paid

The financial aid administrator should enter the amount the school expects to pay the student for the remainder of the award year. This amount should take into account the student's expected enrollment status. For instance, if the student is receiving a $600 Pell disbursement as a full-time student in the first of two payment periods but is expected to drop to half time in the second payment period, the "remaining amount to be paid" would be $300. If the school has entered $0 for "amount paid to date" because it has not yet paid the student for the first payment period, then the "remaining amount to be paid" for the student in this example would be $900.

The school must report "0" for this item if it expects to make no further payments to the student for the award year. The item must not be left blank. Note that if a school reports an amount in this item for a student who has transferred to another school, payments to the student by the new school may be prevented or delayed. If the value is greater than "0,"

---

[1] If a student will be enrolled and paid for the summer term in a program using Formula 2, the school should consider the number of weeks the student is enrolled in the summer term to be the number of weeks in the fall through spring terms divided by the number of terms in the fall through spring.

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then the school must specify the months in which the remaining amounts will be paid.

Months In Which Remaining Payments Will Be Made

If the school has students who will be attending a crossover payment period at the end of the award year, and they will be paid in June, July, or August from this award year's funds, the financial aid administrator should enter the appropriate months in which remaining payments will be made.

> ***Summer School and Other Crossover Payment Periods:***
>
> If a school uses 1998-99 funds to pay a student enrolled in a crossover payment period in the summer of 1998, the school should prepare the Payment Data and submit it in the first batch for this award year.
>
> If the school plans to pay a student out of 1998-99 funds for a summer 1999 payment period, generally it will be to the school's advantage not to notify ED of the payment for next summer until it is reasonably certain that the student will attend. It is recommended that the school not notify ED until at least January 1999. This will save the school effort, as it will have to resubmit Processed Payment Data for all students who were expected to attend the summer payment period but later decided not to attend.

Date Enrolled This Award Year

Enter the first date the student was enrolled in the eligible program for this award year. (For this item, "enrolled" means the first day the student attended classes.) If the student enrolled in a crossover payment period before the first day of the award year (July 1), report the actual date enrolled for this item, even though that date occurs before the start of the award year.

REPORTING DEADLINES

Schools must report any Pell change (for example, a new recipient, or an increased award) within 30 days of the date the school becomes aware of the change. Schools may do this by reporting once every 30 calendar days (or more frequently), or may set up their own system to ensure that changes are reported in a timely manner. For example, a school may decide to report every other Friday on all changes since the last report, or a highly automated school may set up a program to check the records daily for changes and report the changes the same day.

Reporting deadline example

On September 4, Woodhouse College determines that a Pell award it has previously reported to the Department must be reduced. On September 12, it pays five new recipients and determines that it must increase the amount it reported for another student's award. October 4 is 30 days after September 4, so Woodhouse must report the downward adjustment by that date. On October 4, the school bundles the September 4 and September 12 payments and adjustments and submits a report. Woodhouse could also have waited until October 12 to report the changes from September 12.

On October 17, Woodhouse pays another new student and learns that a student for whom it reported an expected spring disbursement will not be attending the spring semester. November 16 is 30 days after October 17. Therefore, November 16 is the deadline by which Woodhouse must report the new payment made on October 17 and the adjustment to zero for the spring term payment.

If a school does not report any payment data for a period of 30 or more calendar days, the Department will consider that the school had no data to report for that period, and any actions (such as changes in authorization levels) will be based only on the data reported to that time.

A school may submit a Payment Data batch more frequently than once every 30 days if there are enough Payment Data to warrant a separate submission. Schools may submit an unlimited number of batches. Note that all Payment Data for an award year must be submitted by September 30 following the end of the award year (for example, September 30, 1999 for the 1998-99 award year). A school may need to submit a batch of Payment Data after the end of the award year to report summer school payments, students who need verification completed, or outstanding payment data changes. The school must be sure that it submits this data before September 30.

Adjustments after September 30

Adjustments can be made to a school's Pell account after September 30 only if there is an underpayment or overpayment of previously reported awards, or if the U.S. Department of Education or one of its contractors has made a processing error. A school can also request administrative relief for unusual circumstances beyond the school's control—for example, a natural disaster. These requests must be made in writing and must be received by January 31 of the calendar year following the award year (for example, by January 31, 2000 for the 1998-99 award year). Requests for such actions should be sent to

U.S. Department of Education
Institutional Financial Management Division, AFMS
P.O. Box 23791
Washington, D.C. 20026-0791

If you have questions about administrative relief, contact the RFMS Customer Service at 1-800-4-PGRANT (1-800-474-7268).

Late adjustments due to program review or audit—34 CFR 690.83(d)

In certain circumstances a school can receive reimbursement even if it did not submit correct Payment Data for a student before the submission deadline. The Department must reimburse a school for funds found to be owed to the school during a audit conducted after December 31, 1988—including funds for which reimbursement was not requested before the audit. In order to receive reimbursement under this provision, the school must demonstrate that it qualifies based on a finding in the school's first required compliance audit of the award year; the audit report must have been submitted by the appropriate deadline. (See Chapter 3 for more information about audit requirements and deadlines). The finding does not need to establish the exact amount of the adjustment but must establish that the school paid Pell awards for which it was not reimbursed by the Department. "Dear Colleague" Letter P-97-2, dated June 1997, explains the procedures and format that a school should use in requesting this adjustment. This supersedes information contained in "Dear Colleague" Letter GEN 94-14.

A school may also receive reimbursement if it submitted Payment Data for a student before the deadline, but did not submit the correct Payment Data for that student. In order to receive reimbursement, the underpayment must be at least $100, and a program review must show that the student was eligible to receive more than the school originally reported.

Note that the final deadline (published in the *Federal Register* each award year) for submitting Payment Data and disbursement information will continue to apply. A school that misses the regulatory deadline would not be in compliance with Federal Pell Grant Program requirements.

Adjustments due to overpayments

Adjusting for an overpayment is permitted any time the school determines that a student for whom Payment Data had been accepted by RFMS received more Pell funds than he or she was qualified to receive. The school must report the reduction to the proper amount whether or not it can collect the overpayment from the student, unless the school was not liable for the overpayment; in that case, the school reports the amount to the Debt Collection Service, Student Receivables Division, (202) 708-4766.

PROCESSED PAYMENT DATA

RFMS processes the Payment Data and returns Processed Payment Data to the school. The Processed Payment Data will be an electronic or magnetic record. The information that the school originally provided in its Payment Data is included in the Processed Payment Data. Comments

about the data—what data RFMS has accepted or rejected, for example—are also included in the Processed Payment Data, as are the data accepted by RFMS. The school will also receive a summary of the data in the batch. Schools review the Processed Payment Data and return any corrections with their next submission.

Note: A school may request replacement data for a batch or year-to-date data on tape, floppy diskette, or electronically by contacting the IAS at 1-800-4-PGRANT (1-800-474-7268). The school may also mail its request to

U. S. Department of Education
Student Aid Origination Team, PSS
P. O. Box 6565
Rockville, Maryland 20850-6565

Processing categories

Each record the school submitted will be placed in one of four categories. The summary indicates how many records in the batch were in each category. The categories are

Rejected. The information is inconsistent. The school must correct these records before resubmitting them.

Accepted with Assumptions. The information was incomplete, so the system made certain assumptions. The school should review the Processed Payment Data carefully and resubmit if corrections are necessary.

Duplicates. These are duplicates of previously **accepted** records and thus are not counted in the "total amount paid to date" or the "remaining amount to be paid" in the batch summary. The school should keep these records in its files. They need not be resubmitted unless the award year data changes.

Accepted. The school should keep these records in its files. The school does not need to resubmit them unless the award year data changes.

Schools should check records rejected because the SSN was invalid or did not match; in many cases, this indicates that the student is not in the Pell database. This may occur if an eligible student has incorrectly reported having a bachelor's degree or being enrolled as a graduate student. The school must correct (or have the student correct) the incorrect information before it can receive any payment for the student from the Department.

The school should review the Processed Payment Data carefully. If, after reviewing the information in the Processed Payment Data and the instructions in the appropriate "User's Guide" on correct reporting

procedures, the financial aid administrator still cannot determine why the award data submitted for a student did not result in the expected processed data, he or she should contact the RFMS Customer Service at 1-800-4-PGRANT (1-800-474-7268).

The first three items on the batch summary provide information about the Payment Data the school submitted. Items 1 and 2 tell how many records the Federal Pell Grant Program received and how they were processed (for example, accepted or rejected). Item 3 is the total amount paid to date for all the students in that batch (from the total of amounts in "Amount Paid to Date" on each record). Note that the Department's count in Items 1 and 3 should agree with the amounts the school reported when it submitted the batch.

The last three items show how the data were adjusted for any records that were rejected, accepted with assumptions, etc. The adjustments made (Item 5e) are subtracted from the total payments for the students in that batch (Item 4). The result (Item 6) is the net change to the accepted student payment as a result of the particular batch.

REPORTING CHANGES

If the Processed Payment Data the school has received are accurate and there are no changes to the students' awards, the school must simply retain these records in its files. However, if the information for any student is wrong or changes during the award year, the school may have to correct the Processed Payment Data and resubmit it with the school's next batch. See the appropriate "User's Guides" for information on correcting Processed Payment Data.

The most frequently required changes are to COA, verification status (to update a "W"—payment without documentation), enrollment status (term schools), and payment amounts and dates. Other changes occur less frequently, except in cases of error. For instance, one would not expect the school's academic calendar to change during the award year.

Optional corrections

Some corrections do not affect the student's award and need not be reported to the Department:

Academic Calendar. The school does not have to report a change from one type of standard academic term to another (for example, from a quarter system to a semester system). Other calendar changes (for example, from a credit-hour to a clock-hour calendar) must be reported.

Cost of Attendance. The school does not have to report a change that does not increase or decrease the amount the student will be paid for the year.

Verification Status. If the verification status accepted by the Federal Pell Grant Program for the student was N, A, T, C, R, or S, the school does not have to report a change to that status. **If the student's status was "W," the school must report a change to that status once it receives full documentation from the student and completes verification.**

Enrollment Status. The school does not have to report a change to enrollment status that does not increase the amount the student will be paid for the year. It will have to report a change in enrollment status if a student attends for a longer period than expected and the result is a greater award. For example, if a three-quarter-time student decides to attend summer school as a three-quarter-time student, the school must change *Enrollment Status* to "Other" at the same time it reports the larger award amount. If the school leaves the student's status as three-quarter time, RFMS assumes that the student's three-quarter-time award is being exceeded, and the larger award amount will not be put on file for the student.

Hours/credits expected to complete, Weeks used. The school does not have to report a change to these items if the change does not increase the amount the student will be paid for the year.

Hours/credits in academic year, Weeks in academic year. The school reports a change to these items only if it is redefining its academic year. (For example, the school decides to change its 32-week academic year to 30 weeks.)

Months in which remaining payments will be made. The school does not have to report changes to this item. However, we encourage schools to report changes if they apply to a significant number of students, so that the school's funding can be adjusted accordingly.

Reporting changes in anticipated payments

If the student's situation changes and the anticipated payments are not made, the school **must report this change** by resubmitting the Processed Payment Data to RFMS. For instance, a student may drop from full-time enrollment in one term to half-time in the next, or may no longer be making satisfactory progress, or simply may not return in the second payment period. In each of these cases, the school must adjust the "Amount to be paid" item and any other relevant items in the Processed Payment Data and return it to RFMS.

Schools must submit Processed Payment Data, for those students whose awards have changed, within 30 days after the date on which the school becomes aware of the change. This requirement ensures that federal funds will not remain at a school when its students do not need the funds. It further ensures that if the student transfers to another school, Pell payments to the student through the new school will not be blocked. Schools that do not submit required reports or do not submit them on time, and schools that submit incomplete reports, will have their Pell allocation reduced and may be fined.

Schools must submit reports on time

STUDENT PAYMENT SUMMARY

The "Student Payment Summary" (SPS) lists the student data in the Department's records for each Pell recipient for whom the school submitted Payment Data for the award year. The SPS enables the school to check its records to determine if there are any additions and changes to its student data that it needs to report to the Department, or any corrections the school needs to make in its institutional records. An SPS is routinely sent to each school for review at least three times during the award year as well as at the end of the award year. A school may also request an SPS during the award year through the IAS at 1-800-4-PGRANT (1-800-474-7268).

A financial aid administrator may also call the above number if he or she has general questions about the school's SPS.

The SPS reflects each record for the award year (as of the date in the upper right corner) that the Department either accepted or rejected but retained in its records. The SPS **excludes** data that the Department rejected and did not retain, as well as records the school submitted that duplicated data already accepted.

Students are listed on the SPS in Pell Institution Number order by the attended campus, then alphabetically by last name. The Department provides summary statistics of all student activity at the end of each attended campus and, for the entire institutional system, at the end of the SPS.

Appendix B of this chapter gives an item-by-item description of the SPS. Appendix C of this chapter describes the circumstances under which the SPS may list some Pell recipients more than once.

Comparing school records to SPS

The school should use its SPS to confirm that the Department has received and accepted student payment data for all the Pell recipients the school has paid, up through the date in the upper right corner of the SPS. The school should compare institutional student records to the SPS to confirm that each Pell recipient appears at least once. If students are missing from the SPS, the school needs to report them to the Department **immediately**. A school should account for each missing student in one of the following three categories:

Students missing from SPS

1. The school submitted the student's record to the Department, but it was rejected due to reporting errors—the batch summary shows the number of rejected records for each batch submission.

2. The school submitted the student's record, but the Department did not receive it—the batch summary shows any discrepancies in the number of records the school reported and the number received for each submission.

3. The school has not yet submitted the student's record to the Department, either inadvertently or for other reasons.

The school should review institutional student records to verify that the payment to each Pell recipient agrees with the "Total Payment Amount" the Department has accepted, as shown on the SPS. If the school finds a difference, it needs to either report the revised payment amount(s) to the Department or correct institutional records for the student.

The school should use the Processed Payment Data as the Department returns them to the school to reconcile institutional records. If the school then uses the SPS as you would your checking account monthly statement, it can verify that its records agree with the Department's or identify the additions and/or changes it needs to report in its next submission. The school reports additional Pell recipients or payment amount changes through whatever medium it normally uses (RDE, EDE, or Floppy Disk Data Exchange). Remember that a school must report any changes in the Pell award no later than 30 days after the date on which it becomes aware of the change.

"W" verification status

The Summary Statistics page gives the school a count of any student records with a verification status of "W" (Without documentation). As mentioned in Section 4 of this chapter, a school may not make more than one disbursement for a student selected for verification until the student

supplies documentation to verify or correct the application data. Therefore, the Department will honor no more than half of the student's Scheduled Award if the school reports, or the Department assumes, a verification status of "W." The school and the student must complete the verification process by the applicable deadline.

Must revise "W" status

As soon as the school completes verification, the school must submit acceptable Payment Data to the Department, revising the student's verification status and amount(s) that the Department accepted for payment. The school should carefully review any student data on the SPS with a verification status of "W" and complete its reporting promptly. In early August, the Department will reduce the accepted payment to $0 for any students whose verification status remains "W" and will make a corresponding reduction in the school's Pell authorization. After the verification deadline (August 31, 1999), the Department will reject any student documents submitted to which a "W" status applies.

Total payments

The first summary page for the entire institutional system (at the end of the SPS) lists the "Total Payment Amount (Item 6 + Item 7)," summarized from the Processed Payment Data shown on the SPS. The school should compare its institutional records to this amount. Appendix D, beginning on page 4-113, describes the steps the school should take to confirm that current institutional Pell payments agree with the student payment data the school has reported. These steps should assist the school in verifying that it has identified all discrepancies between the Department's records and institutional records, so that the school can report any payment data changes or additional students. Differences generally result from two conditions:

Common discrepancies

1. The school has not yet reported all student payment data changes and/or additional recipients.

2. The payment amount in institutional records exceeded the amounts the Department could accept, based on the other data reported for the student, and the Department disallowed the excess. If the data on which the Department based the disallowance properly reflect the student's award information, the school must adjust institutional records to the correct payment amount and recover any excess from the student.

If either of these conditions apply to the school, it needs to resolve the inconsistencies promptly. The Department provides the SPS to allow schools time to review it and submit payment data changes and additional recipients (including any rejected student records) as soon as possible. As mentioned earlier, a school must complete its reporting of all changes and

new recipients no later than 30 days after the date the school becomes aware of the change or addition.

ADMINISTRATIVE COST ALLOWANCE

A school participating in the Federal Pell Grant Program is entitled to an administrative cost allowance (ACA) to help offset the costs of administering the program. The Department notifies the school of the amount of its ACA by mail several times a year, and pays the school automatically by EFT. A school receives $5 for each of its reported Pell recipients. Students who later withdraw are included in the number of recipients, as are transfer students, but those whose payment data are rejected by the Department are not included. The ACA must be used only to help pay the costs of administering the Federal Pell Grant Program and the campus-based programs (see Chapter 5). If the school enrolls a significant number of less-than-full-time or independent students, it is required to use a reasonable proportion of the ACA to assure that financial aid services are available to those students.

REQUESTING FUNDS

The reporting system described in this section enables the Department to track schools' need for Pell funds during the award year and to adjust Pell authorizations accordingly. The system ensures that federal funds do not remain at a school when its students do not need them. When the school requests funds from the Department (for the Pell, campus-based, or Direct Loan programs), that request is handled by a different system, the Education Central Automated Processing System/Grants Administration and Payments System (EDCAPS/GAPS). Schools that participate in the Pell Grant Program will use GAPS to submit their payment requests.

Automated Clearing House (ACH)

The Department's Financial Payments Group uses a payment system called the Automated Clearing House/Electronic Funds Transfer (ACH/EFT). The ACH/EFT is essentially a direct deposit system. Most postsecondary schools that participate in the SFA Programs are now using the ACH/EFT. If you are responsible for your school's fiscal office activities, you should refer to the GAPS User's Guide and to the current edition of the SFA *Blue Book*.

A second method for requesting funds from EDCAPS/GAPS is through FEDWIRE. Under this method, requests for funds go directly to EDCAPS/GAPS. Most state institutions use FEDWIRE. See the GAPS User's Guide mentioned above for further details.

Appendix A: Calculation Summaries by Formula

Standard-term, credit-hour programs, with 30 weeks of instructional time (or waiver applies)

Enrollment for at least 12 credit hours each term required for full-time status

Program terms do not overlap

Academic calendar includes 2 semesters/trimesters (fall and spring) or 3 quarters (fall, winter, and spring).

Fall through spring terms equal at least 30 weeks of instructional time, or at least 26 weeks of instructional time if the program was granted a waiver of the minimum 30-week academic year requirement

STEP 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

STEP 2: Calculate Pell COA

Full-time, full academic-year costs

STEP 3: Determine Annual Award

If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

$$\frac{\text{Annual award}}{\text{Number of payment periods in the program's definition of academic year}}$$

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Formula 2

Standard-term, credit-hour programs, with fewer than 30 weeks of instructional time and waiver does not apply

Enrollment for at least 12 credit hours each term required for full-time status

Program terms do not overlap

Academic calendar includes 2 semesters/trimesters (fall and spring) or 3 quarters (fall, winter, and spring)

Fall through spring terms are less than 30 weeks of instructional time and the program was not granted a waiver of the minimum 30-week academic year requirement

STEP 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

STEP 2: Calculate Pell COA

Full-time, full academic-year costs

Cost for fall through spring terms prorated. If fall through spring terms provide the same number of credit hours as are in the academic year definition, prorated COA is the same as nonprorated COA.

STEP 3: Determine Annual Award

If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

Proration required unless alternate calculation is used

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the fall through spring terms}}{\text{Weeks of instructional time in program's definition of academic year}} \div \begin{matrix}\text{2 (if semesters or trimesters)} \\ \textbf{OR} \\ \text{3 (if quarters)}\end{matrix}$$

OR

Annual award ÷ number of terms in the award year (for alternate calculation)

Any term-based, credit-hour programs; may include those qualifying for Formulas 1 and 2

STEP 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

STEP 2: Calculate Pell COA

Full-time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

STEP 3: Determine Annual Award

If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

A single disbursement may not exceed 50% of the annual award

Formula 4

Clock-hour programs and credit-hour programs without terms

STEP 1: Determine Enrollment Status

At least half time or less than half time

STEP 2: Calculate Pell COA

Full-time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

STEP 3: Determine Annual Award

Always taken from full-time Payment Schedule (equal to Scheduled Award)

STEP 4: Determine Payment Periods

Length of payment period measured in credit or clock hours.

Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each full academic year (or final portion longer than half an academic year) for programs longer than or equal to an academic year.

STEP 5: Calculate Payment for a Payment Period

Annual award is multiplied by two fractions:

(1) Annual award x the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

A single disbursement may not exceed 50% of the annual award

Formula 5A

Programs of study by correspondence, nonterm correspondence component

STEP 1: Determine Enrollment Status

Enrollment status is never more than half time

STEP 2: Calculate Pell COA

Full-time, full academic year costs (for applicable components)

Cost for program or period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

STEP 3: Determine Annual Award

Annual award taken from half time Disbursement Schedule

STEP 4: Determine Payment Periods

First payment period is the period of time in which the student completes the lesser of the first half of the academic year or the first half of the program. (First payment may be made only after the student has completed 25% of lessons or otherwise completed 25% of the work scheduled, whichever comes last.)

Second payment period is the period of time in which the student completes the lesser of the second half of the academic year or the second half of the program. (Second payment may be made only after the student has submitted 75% of lessons or otherwise completed 75% of the work scheduled, whichever comes last.)

STEP 5: Calculate Payment for a Payment Period

(1) Annual award from half time Disbursement Schedule multiplied by the lesser of:

$$\frac{\text{Weeks of instructional time to complete the lesser of program or academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

Programs of study by correspondence, term-based correspondence component

During each term, the written schedule for the submission of lessons must reflect a workload of at least 30 hours of preparation per semester hour or 20 hours of preparation per quarter hour

STEP 1: Determine Enrollment Status

Enrollment status may only be half time or less than half time

STEP 2: Calculate Pell COA

Full-time, full academic year costs (for applicable components)

Cost for program or period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

STEP 3: Determine Annual Award

Annual award taken from appropriate part-time Disbursement Schedule (half time or less than half time)

STEP 4: Determine Payment Periods

Payment period is the academic term. (Payment for the payment period may be made only after the student has completed 50% of lessons or otherwise completed 50% of the work scheduled for the term, whichever comes last.)

STEP 5: Calculate Payment for a Payment Period

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

A single disbursement may not exceed 50% of the annual award

Appendix B: Description of the Student Payment Summary

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Upper Left Hand Corner of the SPS:

CENTRAL ADMINISTRATIVE OFFICE (REPORTING CAMPUS). The school's Pell Institution Number, name, and address.

REPORT FOR STUDENTS ATTENDING. The Pell Institution Number, name, and address of the school actually attended by the students listed. If the system has branch campuses with unique Pell Institution Numbers, the Department produces a separate section for each Attended Campus.

Student Information:

STUDENT NAME. The student's full name, as reported to the CPS for the Transaction Number shown.

CURRENT SOC SEC NO. The student's **current** Social Security Number, as reported to the CPS for the Transaction Number shown.

DATE OF BIRTH. The student's date of birth (MMDDYY), as reported to the CPS for the Transaction Number shown.

TRANS NO. The two-digit Transaction Number assigned by the CPS to identify uniquely a particular record for a student. This number indicates the specific Payment Data record the school submitted to the Department.

EFC. The student's eligibility for a Pell, as determined by the CPS for the Transaction Number shown. The Department uses this EFC to match student payment records with the corresponding eligible applicant record. Unless the school indicates that it based payment on the Secondary EFC, the Department uses this EFC for payment purposes.

Processed Payment Data Information:

(10-6) SECONDARY EFC. The Secondary EFC,[1] if any, calculated for the student by the CPS. The application processing system establishes Primary and Secondary EFCs as follows:

> *Primary EFC.* If the applicant qualifies for the simplified formula, the Primary EFC reflects this calculation; if not, the Primary EFC reflects the regular formula calculation.
>
> *Secondary EFC.* If the applicant qualifies for the simplified formula but also provides complete data, the Secondary EFC reflects the regular formula calculation; otherwise, the Secondary EFC is blank.

[1] If the family's adjusted gross income does not exceed the maximum income that may be earned to claim the maximum federal earned income tax credit, and an IRS Form 1040 will not be filed, then the family qualifies for an automatic zero EFC and no Secondary EFC will be calculated.

(10) EFC USED. The EFC the school reported as the basis for the student's award. A "6" indicates the school based the award on the student's Secondary EFC. A "1" indicates the school previously reported that it used the Secondary EFC and then updated the record to revert to the primary EFC.

(2) ACAD CAL. The student's academic calendar.

(3) COST OF ATTEND. The student's cost of attendance for a full academic year.

(4) VERIFICATION STATUS. The current status of verification of the student's application data. For each active student record shown with a verification status of "W" (Without documentation), the school must submit an update to the student's record to indicate that it completed the verification process. Until the Department receives and accepts the update, the Department will honor only up to one-half of the student's Scheduled Award. The Department will reduce the student's award to $0 if the school does not report an acceptable verification status code.

(5A) ENROLLMENT STATUS. The student's enrollment status (full time, half time, three-quarter time, less-than-half time, other) if enrolled in programs measured by terms—otherwise, blank.

(5B) HOURS/CREDITS PAID. The number of hours/credits the school expects the student to complete in all payment periods in the award year if the student is enrolled in a clock-hour program or a nonterm credit-hour program—otherwise, blank.

(5C) HOURS/CREDITS IN PGM. The number of hours/credits in the academic year for the program in which the student is enrolled, if the student is enrolled in a clock-hour program or a nonterm credit-hour program—otherwise, blank.

(5D) WEEKS USED. The number of weeks of instructional time the school used to calculate the Pell payment (see page 4-79 for information on how schools determine this number). For programs using Formula 1, this item is blank.

(5E) WEEKS IN PGM. For students in programs using Formula 1, this item is blank. For students in all other programs, the number of weeks of instructional time in the academic year for the program in which the student is enrolled.

(5F) PAY METH. The formula used to calculate the student's Pell award.

(11) INCAR. Blank unless the student is incarcerated. Y if the student is incarcerated but eligible to receive a Pell; N if the school previously reported that the student was incarcerated and then updated to indicate that the student is not incarcerated.

(6 + 7) TOTAL PAYMENT AMOUNT. The total payment for this award year that the Department accepted for the student. This amount equals the sum of "Amount Paid to Date" and "Remaining Amount to be Paid." If the Total Payment Amount shown disagrees with the **valid** Pell payments the school will make to the student, the school must provide corrected student payment amount(s) to the Department. A blank Total Payment Amount indicates an inactive payment record (see *ACT* on page 4-106).

REC STA. The current status of the student's data in the Department's records. The status codes are—

E Rejected with errors; record retained in the Federal Pell Grant files. The school must correct the errors and resubmit them to the Department.

A Accepted with assumptions; record retained in the Federal Pell Grant files. The school must review these carefully and resubmit updates if the Department's assumptions do not agree with the student's award information.

I Accepted as reported by the institution; record retained in the Federal Pell Grant files. The school needs to submit updates **only** if the student's data changes, or if the school needs to resolve a verification status code of "W."

The SPS does **not** include student payment records rejected in entirety (Record Status "R") or records the school submitted that duplicated payment data already accepted (Record Status "D"). The school must correctly submit payment data for rejected records to receive credit for its payments to these students in its Pell authorization.

BATCH NO. The number assigned to the Payment Data batch for the school's most recent retained submission of this record for the student. The Batch Number is provided in the Processed Payment Data (see the appropriate "User's Guide").

ED Use Only:

SAR RECORD ID. The student's unique identifier in the Department's payment records. The SAR Record ID consists of—

> *Original Social Security Number.* The Social Security Number reported on the student's original application for the award year.
>
> *Original Name Code.* The first two letters of the student's last name, as reported on the student's original application.
>
> *Transaction Number.* Sequentially assigned by the CPS to uniquely identify a particular applicant record for a student.

SEG NO. Segment Number, as assigned to processed payment records to identify uniquely a particular payment data record for a student. When the school submits changes to previously reported data, the Department uses this number to find the corresponding student record in its payment records. The segment number is given in positions 116-117 in processed records returned by tape or electronically; for Floppy Disk Data Exchange users, this number appears on the Processed Payment Data screen.

ACT. The status of the student's payment data relative to the school's Pell account. Current (active) payment records appear with a "<"; inactive records have nothing in this column. If the school receives its SPS on tape, inactive payment records contain an "I" in position 320. The Department honors payment on only one record per student for each attended campus. If the institutional system has branch campuses with unique Pell Institution Numbers, and a student has attended more than one of these campuses, the school must review **all** of the student's active payment records to verify that it has not overpaid the student.

Summary Data

The Department provides summary data pages at the end of the SPS. Pages 2 and 3 of this summary data are produced for each attended campus the school reported for its students; Page 1 of the summary data is provided for the Central Administrative Office (Reporting Campus) only.

Summary Data—Page 1

Information Summarized from Processed Payment Data on this Report:

TOTAL AMOUNT PAID TO DATE (ITEM 6). Total amount the Department has accepted to date for "Amount Paid to Date" for the Payment Data/Processed Payment Data the school has submitted.

TOTAL REMAINING AMOUNT TO BE PAID (ITEM 7). Total amount the Department has accepted to date for "Remaining Amount to be Paid" for the Payment Data/Processed Payment Data the school submitted.

TOTAL PAYMENT AMOUNT (ITEM 6 + ITEM 7). Total student payments the Department has credited to the school for the students the school reported and the Department accepted, that is, those who appear on this report. If the school has reported all its Pell recipients and payment data changes, this total should agree with institutional records through the date of the batch. The school must resolve any discrepancies and submit its changes to the Department.

TOTAL UNDUPLICATED RECIPIENTS. The number of individual students (unique combination of original Social Security Number and original name code) on this report. The Department uses this number to calculate the school's administrative cost allowance. For single campus institutions, this should agree with the total number of Pell recipients. If it does not, the school needs to resolve the discrepancy.

TOTAL ACTIVE STUDENT RECORDS. The number of current payment records the Department has for students that it has credited toward the school's Pell account. The school should have at least one current payment record for **each** of its Pell recipients. If the institutional system has branch campuses with unique Pell Institution Numbers, and this count exceeds the number of unduplicated recipients above, it indicates that some students have attended more than one of the campuses. The school must carefully review its payments to these students to confirm that it has not overpaid them.

TOTAL RECORDS ON THIS REPORT. The total number of student records, current and inactive, on this report.

TOTAL NUMBER OF ATTENDED CAMPUSES. The number of different attended campuses the school has reported for its students. If all students have the same Reporting and Attended Campus, a zero appears here.

Information Summarized from Item 2 of Your Batch Summary

These counts provide the cumulative total for each listed item from all of the batch summaries sent to the school to date for the award year. The Department provides these counts only to give the school a record of its total activity and to highlight the number of records rejected, accepted with assumptions, duplicated, and accepted. Do **not** try to balance these figures with the individual student detailed listing of the SPS.

Summary Data—Page 2

EXP FAMILY CONTR AND PAYMENT AMOUNT STATISTICS. This summarizes current payment records by EFC range. The Department also provides the average amount paid each student within each range, the overall average EFC, and the average payment amount.

COST OF ATTENDANCE STATISTICS. This summarizes current payment records by Cost of Attendance range. The Department also provides the overall average Cost of Attendance.

VERIFICATION STATUS STATISTICS. This summarizes current payment records according to each of the verification status codes. The school may use the "W" (Without documentation) count to determine the number of students for whom it must still report completion of the verification process to the Department.

INFORMATION SUMMARIZED FROM PROCESSED PAYMENT DATA. This provides the totals for Amount Paid to Date, Remaining Amount to be Paid, and Total Payment Amount for the current payment records at the attended campus shown in the upper left corner. These figures appear only on Page 1 for single campus systems.

FAA EFC ADJUSTMENT STATISTICS. This summarizes current payment records by EFC used for payment. 1—Orig. EFC indicates records paid based on the Primary EFC after a Secondary EFC was previously reported. 6—Secondary EFC Used indicates payment was made based on a Secondary EFC.

Summary Data—Page 3

RECIPIENT COMMENTS SUMMARY STATISTICS. This cumulative summary provides a capsule picture of the number of error and assumption comments the Department used in processing the school's student payment data to date. The school should use these counts to identify any recurring problems it needs to correct in its reporting.

Appendix C: Students Appearing More Than Once on the SPS

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The SPS will list a student more than once for a single attended campus when the school reports that student to the Department using a different SAR or ISIR, or when the school changes the type of academic calendar. The Department honors payment on only one record per student for each attended campus. As mentioned in Appendix B, current (active) payment records appear with a "<" on the far right of the student entry in the detailed listing. The school should carefully review any student who appears more than once to confirm that the current payment record for the student in the Department's records agrees with the SAR or ISIR on which the school based payment.

The Department establishes another record for a student, and reduces the payments accepted on the prior record to $0, in two cases:

1. *Transaction Number.* The two-digit Transaction Number assigned by the CPS uniquely identifies a particular applicant record for the student. It indicates the specific output document on which the school based payment to the student. Each Transaction Number the school submits for a student will create a new record. The **last** transaction the school sent that the Department accepted always becomes the current record for the student, even if the school reported a higher Transaction Number earlier.

Example:

Transaction 01 Original application—rejected

Transaction 02 Result of applicant corrections—EFC of 310

Transaction 03 Result of applicant corrections—EFC of 1507

The student turns in Transaction Number 03, and the school reports it to the Department. The school later determines that the student has Transaction Number 02, which meets the definition of a valid output document. The school reports Transaction Number 02 to the Department, which is accepted; the Department **automatically** reduces the payment amounts on Transaction Number 03 to $0.

2. *Academic Calendar.* The Department establishes a new current record for a student when the school reports any of the following academic calendar changes:

From	To
Standard-term academic calendar (quarter, semester, trimester)	Clock hour or credit hour (nonstandard term)
Clock hour or credit hour	Standard-term academic calendar (quarter, semester, trimester)
Credit hour (nonstandard term)	Clock-hour academic calendar
Clock-hour academic calendar	Credit hour (nonstandard term)

Appendix D: Reconciling Student Payment Data

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Example

Batch dated	12/01/98
Total Amount Paid to Date (Item 6)	8,238
Total Remaining to be Paid (Item 7)	6,497
Total Payment Amount (Item 6 + Item 7)	14,735
Actual payments in institutional records	12,414

Step 1. From institutional records, determine the payments not yet made. **Example:** $2,700 remained to be paid as of the date the school is reconciling the data.

Step 2. Deduct result of Step 1 from the Total Payment Amount on the SPS. **Example:** $14,735 - $2,700 = $12,035.

Step 3. Compare result in Step 2 to the payment amounts in institutional records. **Example:** Compare $12,414 to $12,035; the difference is $379.

Step 4. Account for any discrepancy in the following categories:

- ◊ Payments in institutional records for recipients the school has not yet reported;
- ◊ Payments in institutional records for recipients the school reported but the Department rejected;
- ◊ Payments in institutional records which the Department disallowed;
- ◊ Payments included in the school's student payment data but missing from institutional records; and
- ◊ Recoveries the school has restored to its Pell account but has not reported to the Department as changes to its student payment data.

Please keep in mind that

- ◊ The Pell payments according to institutional records **should never exceed** the school's Pell authorization—the school cannot pay more Pell funds than the Department has authorized.
- ◊ The school's records of actual payments should equal or exceed the total Amount Paid to Date listed on the SPS, unless the school has already recovered some of those payments.

◊ Actual payments should not exceed the Total Payment Amount listed on the SPS. If this occurs, the school either needs to report additional recipients and payment amount adjustments **or** correct the institutional records and payments.

◊ The actual payments made by the school should equal the Total Payment Amount (Item 6 + Item 7) after the school makes all payments and reports all payment adjustments to the Department. If the school identifies major discrepancies, it needs to correct the reporting errors so that the next SPS will reflect more complete and reconcilable data.

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 5

Campus-Based Programs (Common Elements)

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CONTENTS

CHAPTER 5
CAMPUS-BASED PROGRAMS:
COMMON ELEMENTS

INTRODUCTION **1**
- Recent Changes 2
- Program Participation Agreement 2
- Application for Funds 2
- Allocation of Funds 3
- Certifications a School Must Submit to the Department 4

SECTION 1: SELECTING RECIPIENTS **5**
- General Eligibility Requirements 5
- Further Undergraduate Degree 5
- Teacher Certification Programs 5
- Less-Than-Full-Time and Independent Students 6
- Special Sessions 7
- Late Payment to a Student Who Drops Out 7

SECTION 2: RESOURCES AND OVERAWARDS **9**
- Need-Analysis Formulas 9
- Resources 9
- Overawards 11
- Steps to Take if the Resources Exceed Need 11
- Overpayments 12
- Coordination with Bureau of Indian Affairs Grants 13

SECTION 3: FISCAL PROCEDURES AND RECORD REQUIREMENTS ... **15**
- Fiscal Operations Report 15
- Fiscal Procedures 16
- Campus-based Program Records 17
- Administrative Cost Allowance 20

Introduction

The Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs are called "campus-based" programs because each school is responsible for administering them on its own campus. A school applies for and receives program funds directly from the U.S. Department of Education by submitting an application, the *Fiscal Operations Report and Application to Participate* (FISAP), each award year. (See page 5-2.) The school's financial aid administrator is responsible for ensuring that eligible students at the school receive program funds according to the provisions of the law, the regulations, the Program Participation Agreement (PPA) signed by both the Secretary of Education and the school's chief administrative officer, and other criteria the Department may establish.

CAMPUS-BASED PROGRAMS

Federal Perkins Loan Program (formerly National Direct Student Loan Program)	**Federal Work-Study (FWS) Program** (includes Job Location and Development Program)	**Federal Supplemental Educational Opportunity Grant (FSEOG) Program**

This chapter covers provisions common to the Perkins Loan, FSEOG, and FWS programs. Chapters 6, 7, and 8 discuss these programs individually.

Purpose of each program—34CFR 673.1

The Perkins Loan Program encourages schools to make low-interest, long-term loans to needy undergraduate and graduate students to help pay for their cost of education. The FSEOG Program encourages schools to provide grants to exceptionally needy undergraduate students to help pay for their cost of education. The FWS Program encourages the part-time employment of needy undergraduate and graduate students to help pay for their cost of education and encourages FWS recipients to participate in community service activities. A school may use part of its FWS funds for the Job Location and Development (JLD) Program to locate and develop jobs for students, including community service jobs. JLD is discussed in Chapter 7, Section 6. An eligible school that meets the regulatory definition of "work-college" may also use its FWS and/or Perkins Loan allocation to meet the cost of a Work-Colleges Program, discussed in Chapter 7.

Work-college definition—34CFR 675.41

RECENT CHANGES

Electronic FISAP requirement, no diskettes or magnetic tape—Federal Register, September 19, 1997

All schools are now required to file their FISAP data through the Title IV Wide Area Network (TIV-WAN) electronic FISAP process. The Department no longer provides or accepts paper, diskette, or magnetic tape FISAP forms.

PROGRAM PARTICIPATION AGREEMENT

General Provisions—34CFR 668

A school that wants to participate in any SFA program must sign a PPA with the Department. The agreement must be signed by the school official legally authorized to assume, on the school's behalf, the agreement's obligations. (For more information on this agreement, see Chapter 3, Section 2.)

Campus-based regulations—34CFR 674.8, 675.8, and 676.8

The agreement provides that the school must use the funds it receives for a program solely for the purposes specified in the regulations for that program and that the school must administer each program in accordance with the Higher Education Act (HEA) of 1965, as amended, and the General Provisions regulations. See Chapter 3 of this handbook for information on the General Provisions. Each of the campus-based programs has additional requirements that are part of the PPA and that are specific to the individual program; these requirements are found in the regulations for each program and in the HEA. Each program's specific requirements are discussed in the chapter for that program.

APPLICATION FOR FUNDS

To receive funds from the Department for one or more of the campus-based programs, a school must submit a FISAP each award year. All schools are required to file the FISAP data through the electronic FISAP process. The Department no longer provides or accepts paper, diskette, or magnetic tape FISAP forms. Thus, a school must use the TIV-WAN electronic FISAP transmission process through the TIV-WAN using EDExpress to be eligible to participate (request/receive a funding allocation) in the campus-based programs.

Deadline for filing FISAP

Each July, the Department makes available through the TIV-WAN the electronic FISAP for schools to use in applying for funds for the subsequent award year. The information reported must be accurate and verifiable. In July 1998, the Department will distribute to schools the materials essential for preparing the *1997-98 Fiscal Operations Report and 1999-2000 Application to Participate*. The deadline for transmitting the completed FISAP to the Department over the TIV-WAN is October 1, 1998.

School with pending application to participate

A school that has applied to participate in the campus-based programs for the first time should submit a FISAP by the deadline even if the school has not been certified to participate in the programs. The Department will calculate a funding level for the school and put the funding on "hold" status until the school has been approved to participate.

See page 5-15 for information on whom to contact if you have questions about the FISAP.

ALLOCATION OF FUNDS

The Department allocates funds directly to schools according to the statutory formulas. The allocation (or authorization) for each program is the amount of funding the school is authorized to receive from the Department for an award year. This amount is based on the allocation formulas in the law as well as on the funds appropriated by Congress for the program. A school will not, however, receive an allocation that is in excess of its request.

Notification of allocation

The Department notifies schools of their final allocation for each campus-based program in late March each year by sending *The Official Notice of Funding*.

Release of unexpended funds to the Department

If a school does not use its total allocation of funds for SFA campus-based programs, the school must release unexpended amounts to the Department. In June each year, the Department sends schools a Dear Colleague letter advising them that they must release funds not spent by June 30 of that year and asking them to estimate the amount of funds they expect to have used by that date. Later, a school also must determine the actual amounts spent as of the end of the award year and report those amounts on the Department of Education's Central Automated Processing System (EDCAPS).

Reduction in allocation for returning funds

If a school returns more than 10% of its allocated funds for a given award year under any one of the three campus-based programs, the Department will reduce the school's allocation for the second succeeding award year by the dollar amount returned unless this provision is waived by the Department. For example, if the school returns more than 10% of its 1996-97 allocation, its 1998-99 allocation will be reduced by the dollar amount returned for 1996-97.

Waiver of reduction in allocation

The Department may waive this provision for a specific school if it finds that enforcement would be contrary to the interests of the program. The Department considers enforcement to be contrary to the interest of the program only if the school returned more than 10% of its allocation due to circumstances that are beyond the school's control and are not expected to recur. To request a waiver, a school must submit a written explanation of

the circumstances along with supporting documentation. The request for a waiver for the 1998-99 award year had to be postmarked by February 13, 1998. By February 1999, the Department will issue a Dear Colleague letter explaining the process a school must use to request a waiver for the 1999-2000 award year.

Supplemental allocation

After schools release their unexpended allocations, the Department reallocates the funds to schools that have met the criteria for receiving a supplemental allocation. Criteria for distributing these funds for each program are established in accordance with the HEA and the campus-based program regulations.

CERTIFICATIONS A SCHOOL MUST SUBMIT TO THE DEPARTMENT

Included in the FISAP package the Department distributes to schools annually is the Department Form 80-0013, *Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements* and Standard Form LLL, *Disclosure of Lobbying Activities*. To participate in the campus-based programs each award year, a school's chief executive officer, or another person who has the authority to sign on behalf of the entire school, is required to complete, sign, date, and submit to the Department the above certification forms with the school's completed FISAP by the established deadline. A detailed discussion of the certification requirements is in Chapter 3, Section 2 of this handbook.

Section 1 Selecting Recipients

GENERAL ELIGIBILITY REQUIREMENTS

All students receiving campus-based aid must meet the general eligibility requirements listed in Chapter 2, Section 1. Additional student eligibility requirements under each campus-based program are discussed in Chapters 6 through 8.

A student enrolled as an undergraduate, graduate, or professional student is eligible to receive assistance from the Federal Perkins Loan and Federal Work-Study (FWS) programs. Only undergraduate students are eligible to receive Federal Supplemental Educational Opportunity Grants (FSEOGs).

Written selection procedures

In choosing aid recipients, a school must develop written selection procedures that are uniformly applied and that are kept on file at the school. A school must make campus-based funds reasonably available—to the extent of available funds—to all eligible students who demonstrate financial need. (Two of the campus-based programs, the Federal Perkins Loan and FSEOG programs, require eligible students to have **exceptional** financial need.) A school is reminded that no payment of a campus-based award can be made if the student did not receive an official Expected Family Contribution (EFC).

FURTHER UNDERGRADUATE DEGREE

A student who has earned a bachelor's or first professional degree is eligible to receive aid from the Federal Perkins Loan or FWS program to pursue an **additional** undergraduate degree. However, a student who has earned a bachelor's or first professional degree is **not** eligible to receive an FSEOG to pursue another undergraduate degree.

TEACHER CERTIFICATION PROGRAMS

A school may award a Federal Perkins Loan and/or FWS to a student who is enrolled or accepted for enrollment at an eligible school on at least a half-time basis in a program that is required by a state for a professional credential or certificate for employment as an elementary or secondary

teacher in that state. A student is not allowed to receive aid to cover optional courses that he or she may elect to take for professional recognition or advancement or additional optional courses recommended or required by the school. The school should document that the courses the student enrolls in are required by the state for teacher certification.

A student enrolled in a teacher certification program may be considered either an undergraduate or graduate student, depending on the school's policy. That decision is left to the school. Information about Perkins Loan limits for students in teacher certification programs is included in Chapter 6, Section 2.

LESS-THAN-FULL-TIME AND INDEPENDENT STUDENTS

If a school's FSEOG allocation, FWS authorization, or Federal Perkins Loan federal capital contribution (FCC) is directly or indirectly based in part on the financial need of less-than-full-time or independent students and if the need of all of these students exceeds 5% of the total need of all students at the school, then the school must **offer** to those students at least 5% of that allotment for FSEOG, 5% of the authorization for FWS, or 5% of the dollar amount of the loans made under the Federal Perkins Loan Program.

Determining whether a school must offer at least 5% of the allotment, grant, or dollar amount of the loans for the 1998-99 award year to these students is based on eligible aid applicant data filed for the 1996-97 award year. For subsequent award years, this requirement will be governed by data filed for the award year that precedes the application year by two years.

Correspondence students

Part-time students include correspondence students. To be considered enrolled in a program of correspondence study, the student must be enrolled in a degree-seeking program and must have completed and submitted the first lesson. A school that offers funds to part-time students on the home campus must also offer funds to part-time students on its eligible branch campuses.

Aid offering requirement exceptions

A school is not required to offer aid to less-than-full-time or independent students

- ◊ under the Federal Perkins Loan Program if the school is not receiving any FCC for 1998-99 or
- ◊ under any campus-based program for which the school received a 1998-99 allocation of $5,000 or less.

If a school's allocation for the 1998-99 award year is **not** based on the need of less-than-full-time or independent students, the school **may** offer part of each allotment to those students but is not required to do so.

SPECIAL SESSIONS

A student who enrolls as a regular student in an eligible program during a special session, such as summer school, may receive campus-based aid if he or she meets the same general eligibility requirements that apply to a student enrolled in a regular session. General eligibility requirements are discussed in Chapter 2 and in 34 CFR 668.32.

Periods of nonattendance

If a student is **not** enrolled during the special session, the student is not eligible to receive campus-based aid during the period of **nonattendance**, except in the case of an FWS job, which may be awarded only if the student attended the school during the preceding term or has been accepted by the school for the subsequent term. (Refer to Chapter 7, Section 4, under "FWS Employment During Periods of Nonattendance.")

LATE PAYMENT TO A STUDENT WHO DROPS OUT

Late disbursement regulations removed from 34CFR 674.16 (g) and 34CFR 676.16(e)—revised regulations in 34CFR 668.164(g)

Regulations regarding late disbursements of Perkins Loans and FSEOGs have been revised. A school may make a late disbursement of a Perkins Loan and/or an FSEOG to an ineligible student if the student became ineligible solely because the student is no longer enrolled at the school for the award year. Before the student dropped out, the school must have received a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the student with an official EFC and have awarded the student the Perkins Loan or FSEOG. The school may make that late disbursement only if the funds are used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible, and the school must make the late disbursement no later than 90 days after the date the student became ineligible because he or she was no longer enrolled.

Refunds and repayments

If a student drops out **after** receiving an award from the Federal Perkins Loan Program or the FSEOG Program, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter 3, Section 4.

Section 2 Resources and Overawards

NEED-ANALYSIS FORMULAS

The Higher Education Act of 1965 (HEA), as amended, provides a single methodology for determining the Expected Family Contribution (EFC) and cost of attendance (COA) for all Student Financial Assistance (SFA) programs. Need-analysis and COA are discussed in Chapter 2, Section 3. If the student's COA exceeds his or her EFC, the student has need.

Before awarding aid from campus-based programs, the financial aid administrator must take into account aid the student will receive from other SFA Programs. The administrator must also take into account other resources that the school makes available to its students, resources about which he or she knows, or resources that the administrator can reasonably anticipate at the time aid is awarded to the student. An aid administrator may not award or disburse aid from a campus-based program if that aid, when combined with all other resources, would exceed the student's need.

Maximum aid from campus-based programs = **Financial need** - **Aid from other SFA programs & resources**

If, **at any time during the award period**, the student receives additional resources that were not considered in calculating the student's eligibility for campus-based aid and if these resources combined with the expected financial aid will exceed the student's need, the amount in excess of the student's need is considered an overaward.

RESOURCES

Resources, as defined by the campus-based regulations, include but are not limited to

- ◊ funds a student is entitled to receive from a Federal Pell Grant,
- ◊ William D. Ford Federal Direct Loans (Direct Loans),
- ◊ Federal Family Education Loans (FFELs),

- ◊ long-term loans made by the school, including Federal Perkins Loans (short-term emergency loans are not considered to be a resource),
- ◊ grants, including Federal Supplemental Educational Opportunity Grants (FSEOGs), state grants, and ROTC living allowances,
- ◊ scholarships, including athletic scholarships and ROTC scholarships,
- ◊ waivers of tuition and fees,
- ◊ fellowships or assistantships,
- ◊ veterans educational benefits,
- ◊ income from insurance programs that pay for the student's education, and
- ◊ net income from need-based employment.

Determine FWS net earnings

To determine the net amount of a student's Federal Work-Study (FWS) earnings that will be available to help pay for his or her COA, the school must subtract estimated taxes and job-related costs from the student's gross FWS earnings (discussed in Chapter 7, Section 2).

Any portion of the above resources that is included in the calculation of the student's EFC is not considered to be a resource.

The school may treat a Federal PLUS Loan, Direct PLUS Loan, unsubsidized Federal Stafford Loan, Direct Unsubsidized Loan, state-sponsored loan, or a private loan as a substitute for a student's EFC. However, if the sum of the loan amounts received exceeds the student's EFC, the excess is a resource.

In the above list of resources, the term "need-based employment" means employment that is awarded by the school itself or by another entity to a student who demonstrates a financial need for those funds for the purpose of defraying educational costs of attendance for the award year. Only income from **need-based** employment may be considered as a resource.

Treatment of non-need-based earnings

Non-need-based earnings are not to be considered as a resource for the current award year because they will be reported as income on the *Free Application for Federal Student Aid* (FAFSA) for the subsequent award year and will be used to calculate the EFC for that award year.

Veterans **educational** benefits are not included in the EFC formulas; therefore, these benefits must be treated as a resource when determining the amount of a student's financial need from the campus-based programs and must be treated as estimated financial assistance in the FFEL Program and the Direct Loan Program. The veterans educational benefits to be treated as a resource/estimated financial assistance are listed in Chapter 2, Section 3.

Treatment of veterans educational benefits

Noneducational veterans benefits are not counted as a resource or estimated financial assistance, as they are already counted in the EFC formula as nontaxable income. Noneducational veterans benefits include Death Pension and Dependency and Indemnity Compensation (DIC) benefits.

OVERAWARDS

A financial aid administrator may not award or disburse aid from a campus-based program if that aid, when combined with all other resources, would exceed the student's need. If a student who has already been awarded a financial aid package later receives additional resources that cause his or her financial aid package to exceed his or her need, the amount in excess of the student's need is considered an overaward. There is now a $300 overaward threshold for all campus-based programs. The $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need.

Consolidated overaward provisions—34CFR 673.5

STEPS TO TAKE IF THE RESOURCES EXCEED NEED

If a school learns that a student has received additional resources that were not included in calculating the student's eligibility for aid from the Perkins Loan, FWS, or FSEOG Program that would result in the student's total resources exceeding his or her financial need by more than $300, the school must take the following steps:

1. If the student's aid package includes a loan under the FFEL or Direct Loan Program, the school must first follow the overaward requirements that are presented in Chapter 10 or Chapter 11, respectively. Also, a school may attempt to reduce or eliminate the overaward by changing the function of an unsubsidized loan (a Stafford Loan, a nonfederal loan, or the parents' PLUS Loan) from covering need to replacing the EFC.

Overaward with FFEL or Direct Loan in the aid package

2. If there is no FFEL or Direct Loan in the student's aid package or if the school eliminates the FFEL or Direct Loan overaward

Recalculate need

and if, in either case, the student's total resources still exceed the student's need by more than $300, the school must recalculate the student's need to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student. If the student's need has increased and if the total resources do not exceed the increased need by more than $300, the school is not required to take any additional action.

If need has not increased

3. If the school recalculates the student's need and determines that the student's need has **not** increased or that his or her need has increased but that the total resources still exceed his or her need by more than $300, the school must cancel any loan or grant (other than a Pell Grant) that has not already been disbursed.

4. If the student's total resources still exceed his or her need by more than $300 and his or her resources include a Perkins Loan and/or FSEOG, the amount that exceeds the student's need by more than $300 is a Perkins Loan or FSEOG overpayment.

Treatment of FWS in aid package

For a student employed under the FWS Program, if the school recalculates the student's need and determines that the student's need has increased and if the total resources do not exceed that increased need by more than $300, the school may use FWS funds to pay the student until the FWS award has been earned or until the student's increased need has been met. In addition, the school may continue employing the student under FWS after the full amount of the FWS award has been earned and the student's financial need has been met; however, the school may pay the student with FWS funds only up to the time the income from **need-based** employment exceeds the student's financial need by more than $300. At that point, FWS funds may no longer be used to pay the student. The school may continue to employ the student, but funds other than FWS funds must be used to pay the wages.

OVERPAYMENTS

Liability for Perkins Loan or FSEOG overpayment

A student is liable for any overpayment of a Perkins Loan or FSEOG; the school is also liable for any overpayment that was caused by the failure of the school to follow the procedures in 34 CFR Part 668, Part 673, Part 674, Part 675, or Part 676. If the school makes a Perkins Loan or FSEOG overpayment for which it is liable, it must restore an amount equal to the overpayment plus any administrative cost allowance claimed on that amount to its Perkins Loan fund for a Perkins Loan overpayment or to its FSEOG account for an FSEOG overpayment.

Recovering overpayment of Perkins Loan advances or FSEOG

If the school makes an overpayment of Perkins Loan advances or FSEOG for which it is not liable (for example, when a student has made a mistake on the application), the school must promptly attempt to recover the

overpayment by sending a written notice to the student requesting the repayment of the amount of the overpayment. The notice must state that, if the student fails to repay the overpayment, or fails to make arrangements satisfactory to the holder of the overpayment debt to repay the overpayment, the student is ineligible for additional SFA funds until final resolution of the overpayment.

If a student claims that the school has made a mistake in determining the Perkins Loan or FSEOG overpayment, the school must consider any information provided by the student and determine whether the objection is warranted.

Collecting an FSEOG overpayment

If the school made an FSEOG overpayment for which it is not liable, and the federal share of an FSEOG overpayment is $25 **or more,** the school may be required to refer the overpayment to the U.S. Department of Education for collection. A school must refer the FSEOG overpayment case to the Department's Student Receivables Division for collection if all of the following conditions apply to the overpayment:

- ◊ the school has sent the required notice to recover the overpayment,
- ◊ the school determines that the student's objection (if any) is not warranted,
- ◊ either the school has failed to collect the FSEOG overpayment or the student has failed to make arrangements satisfactory to the school to repay the overpayment, **and**
- ◊ the federal share of an FSEOG overpayment is $25 **or more**.

If the school is required to refer the FSEOG overpayment to the Department for collection, the school must identify the Federal share of the overpayment; the student's name, most recent address, and telephone number; and other relevant information. See the *Verification Guide* for additional information. After referring the overpayment case to the Department for collection, the school is not required to make any further attempt to collect the FSEOG overpayment. If the school is unable to collect the overpayment and the federal share is **less than** $25, the school is not required to make any further attempt to collect the overpayment.

COORDINATION WITH BUREAU OF INDIAN AFFAIRS GRANTS

34CFR 673.6

To determine the amount of campus-based aid for a student who is or may be eligible for a BIA grant, a school must first develop a financial aid package without considering any BIA funds. If the total aid package—after BIA funds are added—does not exceed the student's need, no

adjustment may be made to the aid package. If the total package plus the BIA grant does exceed need, the school must eliminate the excess in the following sequence: loans, work-study awards, and grants other than Pell Grants. (The school may **not** reduce a Pell Grant or BIA grant.) The school may alter this sequence of reductions upon the student's request if the school believes the change would benefit the student. In determining the amount of financial need for a student eligible for a BIA grant, a financial aid administrator is encouraged to consult with area officials in charge of BIA postsecondary financial aid.

Section 3 Fiscal Procedures and Record Requirements

For information on general fiscal procedures and records requirements for all Student Financial Assistance (SFA) programs, refer to Section 2 of Chapter 3, the current edition of the *Blue Book*, and 34 CFR 668. Additional fiscal procedures required for each campus-based program are discussed in the handbook chapter covering that program.

FISCAL OPERATIONS REPORT

FISAP requirement—34CFR 673.3

As discussed in the introduction to this chapter, a school must submit an application (*Fiscal Operations Report and Application to Participate* [FISAP]) for each award year to receive federal funds under the campus-based programs. The school uses the *Fiscal Operations Report* portion of the FISAP to report its expenditures under the campus-based programs in the previous award year. All schools are required to file the FISAP data through the Title IV Wide Area Network (TIV-WAN) electronic FISAP process using EDExpress Windows software. The Department no longer provides or accepts paper, diskette, or magnetic tape FISAP forms.

Each July, the U.S. Department of Education makes available through the TIV-WAN the electronic FISAP for schools to use in applying for funds for the subsequent award year and in reporting expenditures for the previous award year. Materials essential for the preparation and submission of the *1996-97 Fiscal Operations Report and 1998-99 Application to Participate* were distributed to schools in July 1997. Schools that sent the FISAP to the Department by the October 1, 1997 deadline will receive their tentative 1998-99 funding notifications in a Dear Colleague letter in early 1998. Final 1998-99 funding notifications will be sent to schools in March 1998.

Questions about the FISAP

In July 1998, the Department will make available through the TIV-WAN the FISAP packages schools must complete to apply for funds for the 1999-2000 award year. Proposed new data collection requirements for the 1999-2000 *Application to Participate* will be discussed in a Dear Colleague Letter in February 1998. Questions concerning the preparation of the FISAP should be referred to the appropriate campus-based state representative under the Department's Student Financial Assistance Programs, Accounting and Financial Management Service, Institutional Financial Management Division. The representatives and their telephone numbers

are listed in Chapter 1, Section 2, of this handbook. Questions about the data entry or EDExpress software should be referred to Central Processing System (CPS) Customer Service on 800/330-5947. Questions about the electronic transmission process should be referred to TIV-WAN Customer Service on 800/615-1189. Questions about prior-year data listed on a FISAP should be referred to a FISAP Administrator on 301/565-0032 or 202/708-6726.

FISCAL PROCEDURES

Cash management regulations

Cash management requirements that apply to all SFA programs are discussed in detail in Chapter 3, Section 3. The cash management requirements that apply specifically to the campus-based programs follow:

Interest-bearing account for Perkins Fund

◊ A school must maintain its Perkins Loan Program Fund in an interest-bearing bank account or investment account consisting predominately of low-risk, income-producing securities, such as obligations issued or guaranteed by the United States, under the provisions of 34 CFR 668.163(c); interest or income earned on Fund proceeds are retained by the school as part of the Fund.

Payment period exception for FWS

◊ 34 CFR 668.164(b) requires schools to disburse SFA program funds on a payment period basis, with the exception of FWS payments to students. FWS payment provisions are in 34 CFR 675.16, discussed in Chapter 7, Section 3.

Late disbursement of a Perkins Loan or FSEOG—34CFR 668.164(g)

◊ A school may make a late disbursement of a Perkins Loan and/or FSEOG to an ineligible student if the student became ineligible solely because the student is no longer enrolled at the school for the award year. Before the student dropped out, the school must have received a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the student with an official EFC and have awarded the student the Perkins Loan or FSEOG. The school may make that late disbursement only if the funds are used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible, and the school must make the late disbursement no later than 90 days after the date the student became ineligible because he or she was no longer enrolled.

◊ If a school credits a student's account at the school with Perkins Loan funds, the school must notify the student of the date and amount of the disbursement, the student's right to cancel all or a portion of that loan and his or her right to have the funds returned to the school's Perkins fund, under the provisions of 34 CFR 668.165(a).

◊ The school must send the above notice, either in writing or electronically, within 30 days of the date the school credits the student's account at the school. If the school sends the notice electronically, the school must require the student to confirm receipt of the notice, and must keep a copy of the confirmation.

Requirement to send notice within 30 days

◊ The school must return the Perkins Loan proceeds, cancel the loan, or do both

- if the school receives a loan cancellation request within 14 days after the school sends the notice to the student, or,
- if the school sends the notice more than 14 days before the first day of the payment period and the school receives a cancellation request by the first day of the payment period.

Procedures if student requests loan cancellation

◊ If the school does not receive the cancellation request within the time period described above, the school may return the loan proceeds, cancel the loan, or do both, but is not required to do so. The school must notify the student in writing or electronically of the school's decision. Additional notification requirements that apply to the disbursement of all SFA program funds are discussed in detail in Chapter 3, Section 3.

Procedures if school does not receive request within the time period

CAMPUS-BASED PROGRAM RECORDS

A school must keep financial records that reflect all campus-based program transactions and must keep all records supporting the school's application for campus-based funds. This documentation includes the applications and records of all students who applied for campus-based assistance for a specific award year and were included on the school's FISAP for that award year. The school must also retain applications and records of students who applied for but did not receive aid either because the school had no more funds to award or because the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and must separate those transactions from all other institutional financial activity. Fiscal records must be reconciled at least monthly.

Recordkeeping requirements as they apply in general to all SFA programs are discussed in Chapter 3, Section 7. In addition to meeting those requirements, a school must meet certain campus-based program recordkeeping requirements.

Types of records the school must keep

The campus-based records a school must maintain include but are not limited to

- ◊ the SAR or ISIR used to determine a student's eligibility for campus-based program funds;
- ◊ application data submitted to the Department or the school on behalf of the student;
- ◊ documentation of each student's eligibility for campus-based program funds;
- ◊ documentation of the amount of a Perkins Loan, FSEOG or FWS award, its payment period, and the calculations used to determine the amount of the loan, grant, or FWS award;
- ◊ documentation of each disbursement of FSEOG or Perkins Loan funds, and the date and amount of each payment of FWS wages;
- ◊ documentation of the school's calculation of any refunds or overpayments due to or on behalf of the student and the amount, date, and basis of the school's calculation;
- ◊ documentation of the payment of any refund or overpayment to the SFA program fund or the Department;
- ◊ information collected at initial and exit loan counseling required by Perkins Loan regulations; and
- ◊ reports and forms used by the school in its participation in a campus-based program, and any records needed to verify data that appear in those reports and forms.

For each Perkins Loan borrower, a school must maintain a repayment history that shows

- ◊ the date and amount of each payment during the life of the loan;
- ◊ the amount of each payment credited to principal, interest, collection costs, and either penalty or late charges;
- ◊ the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- ◊ copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills,

routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

Schools must also follow the procedures established in 34 CFR 675.19 for documenting a student's FWS work, earnings, and payroll transactions. These procedures are discussed in Chapter 7, Section 3.

Generally, a school must keep records relating to the school's administration of a campus-based program or the Pell Grant Program for three years after the end of an award year for which the aid was awarded and disbursed under that program, with the following exceptions:

- The school must keep the FISAP in the Perkins Loan, Federal Supplemental Educational Opportunity Grant (FSEOG), and FWS Programs and any records necessary to support the data contained in the FISAP, including "income grid information," for three years after the end of the award year in which the FISAP is submitted.

Perkins Loan repayment records—34CFR 674.19(e)(3)

- The school must keep repayment records for Perkins Loans, including records relating to cancellation and deferment requests for at least three years from the date a loan is assigned to the Department, canceled, or repaid.

Records under question—34CFR 668.24(e)(3)

- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later.

A school must keep its campus-based program records in one of the following formats:

Format of records—34CFR 668.24(d)

- Original signed promissory notes and signed repayment schedules for Perkins Loans, National Direct Student Loans (NDSLs), or National Defense Student Loans (Defense Loans) must be kept in a locked fireproof container until the loan is repaid or until the school needs the originals in order to enforce collection of the loan. If a loan is assigned to the Department, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s). The school may not send computer-generated form(s) or microform(s). (Refer to Chapter 6, Section 3.)

Records necessary to enforce loan collection—34CFR 674.19(e)(4)

- A school may keep other required records in hard copy or in microform, computer file, optical disk, CD-ROM, or other media formats, but all record information must be retrievable

in a coherent hard copy format or in other media formats acceptable to the Department except that

- a student's SAR or ISIR used to determine eligibility for SFA program funds must be kept in the format in which the school received it, except that the SAR may be kept in an "imaged media format;" and

- any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be kept in its original hard copy or in an imaged media format.

◊ Any "imaged media format" used to keep required records must be capable of reproducing an accurate, legible, and complete copy of the original document, and, when printed, this copy must be approximately the same size as the original.

ADMINISTRATIVE COST ALLOWANCE

A school participating in the campus-based programs is entitled to an allowance to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The allowance can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the campus-based programs but the Federal Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements.

A school may use up to 10% of the administrative cost allowance attributable to the school's FWS Program expenditures to offset expenses incurred for its community service program.

Each school's administrative cost allowance is based on its expenditures for all three programs, **excluding** the amount of Perkins Loans assigned to the Department. The school calculates the total administrative cost allowance for the campus-based programs in Part VI of the FISAP by adding:

5% of the first $2,750,000 of a school's expenditures under the campus-based programs
+
4% of expenditures greater than $2,750,000 but less than $5,500,000 under the campus-based programs
+
3% of expenditures greater than $5,500,000 under the campus-based programs

When a school calculates its administrative cost allowance for the 1998-99 award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75% federal share and the required 25% non-federal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its administrative cost allowance. If the Department has granted a school a waiver of its required institutional share for the FSEOG Program or the FWS Program, that school's administrative cost allowance may be calculated only on the full federal portion of its awards for those programs.

The school takes the administrative cost allowance out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan fund. It is not a separate allowance sent to the school. A school may draw its allowance from any combination of campus-based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allowance from a campus-based program unless the school has disbursed funds to students from that program during the award year.

If a school charges any administrative cost allowance against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 5

Federal Perkins Loan Program

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CONTENTS

CHAPTER 6
FEDERAL PERKINS LOAN PROGRAM

INTRODUCTION **1**
Participation Agreement and Federal Perkins Loan Fund 1
Allocation of Funds—Federal Capital Contribution 2

SECTION 1: STUDENT ELIGIBILITY **5**
Eligibility Factors 6
Loan Availability 7
Eligibility of Student Who Drops Out 8

SECTION 2: MAKING & DISBURSING LOANS **9**
Loan Maximums 9
Counseling Students 11
The Promissory Note 13
Comparison of July 1993 Notes with May 1996 Notes 14
Changes in Loan Amount—May 1996 Notes 15
School-Designed Note 15
Minimum Monthly Payment Option 16
Closed-end and Open-ended Promissory Notes 16
General Disbursement requirements 17
Frequency of Disbursements 19
Uneven Costs/Unequal Disbursements 19
Late Disbursements 20

SECTION 3: REPAYMENT **21**
Grace Periods 21
Grace Period for Borrower attending Less Than Half Time 22
Prepayment 24
Repayment Plan 24
Exit Interview and Repayment Schedule 25
Developing a Repayment Schedule 25
Minimum Monthly Repayment Amounts 26
Establishing Repayment Dates 29
Interest Rates 30
Length of Repayment Period 30
Disposition of Promissory Note and Repayment Schedule 32

SECTION 4: FORBEARANCE & DEFERMENT **35**
Forbearance 35
Deferment 36
In-School Deferment—Common to All Program Loans 37

Deferment of Loans Made on or After July 1, 1993 37
Deferment of Perkins Loans Made Before July 1, 1993 41
Deferment of NDSLs Made Between October 1, 1980 and July 1, 1993 44
Deferment vs. Postponement for Service That Will Qualify for Loan Cancellation 46
The Concurrent Deferment Period 47
Deferment and Default 47
Deferment vs. In-School Enrollment Status 48

SECTION 5: CANCELLATION 49
U.S. Army Loan Repayment Program 49
Common Cancellation Procedures 49
Cancellation Provisions Common to All Loans Made After July 1, 1987 51
Law Enforcement Cancellation Provision—Specific to Loans Made on or After November 29, 1990 51
Cancellation Provisions Specific to Federal Perkins Loans and NDSLs Made on or After July 23, 1992 52
Military Service Cancellation—Applies to All Loans Made on or After July 1, 1972 53
Cancellation Provisions Specific to Perkins Loans 53
Death, Total and Permanent Disability, and Bankruptcy Cancellation Provisions—Applicable to All Loans 54
Criteria for Teacher Cancellation 54
Criteria Borrower Must Meet for Military Cancellation 59
Criteria for Head Start Cancellation 59
Criteria for Employee of a Child or Family Services Agency 59
Criteria for Law Enforcement or Corrections Officer Cancellation 60
Criteria for Disability Cancellation 60
Criteria for Receiving a Bankruptcy Cancellation 61
Reimbursing Amounts Canceled 61
Definitions 62

SECTION 6: DUE DILIGENCE—BILLING & ADDRESS SEARCHES 65
Exit Interview 65
Contact During Grace Periods 68
Billing Procedures 69
Address Searches 72

SECTION 7: DUE DILIGENCE—LOAN COLLECTION 75
Collection Procedures 75
Actions a School May Take to Avoid Litigation 77
Litigation 78
Deposit of Funds Collected 79
Costs Chargeable to the Federal Perkins Loan Fund 80
Using Billing and Collection Firms 82

SECTION 8: DEFAULT **85**
Compromise of Repayment of Defaulted Loan 86
Penalty for Schools With High Cohort Default Rates 87
Calculating a School's Cohort Default Rate 87
Defaulted Loans Included in a School's Cohort Default Rate 88
Rules for Calculating the Number of Days in Default 90
Cohort Default Rate for a School With More Than One Location 91
Default Reduction Plan 92
Assignment 94
Default Prevention Software 97
Default and Student Eligibility 97

SECTION 9: BANKRUPTCY **99**
When Borrower Requests Discharge Based on Undue Hardship 99
Procedures When Borrower Requests Adjustment in Repayment 100

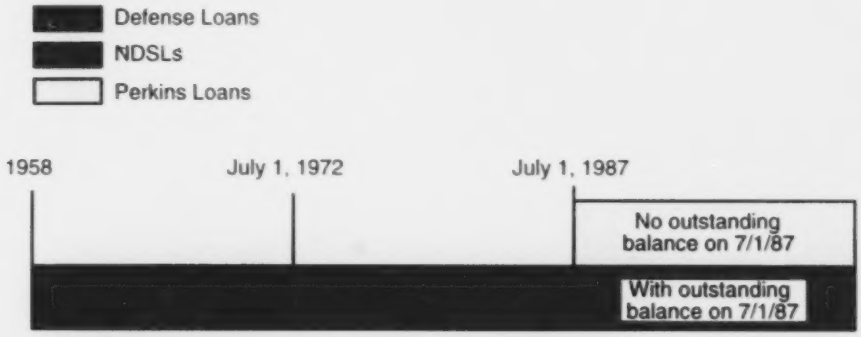
SECTION 10: CREDIT BUREAU REPORTING **103**

SECTION 11: PROGRAM FUNDS **105**
Fiscal Procedures 106
Recordkeeping Requirements 107

Introduction

Loans under the Federal Perkins Loan Program include Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). (No new Defense Loans were made after July 1, 1972, but a few are still in repayment.) Perkins Loans and NDSLs are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay postsecondary educational costs. The school must give priority to students with exceptional financial need as defined by the school. (See Section 1 of this chapter.) The current interest rate is 5%.

Loans made before July 1, 1972 were Defense Loans. Loans made from July 1, 1972 through June 30, 1987 were NDSLs. A loan made on or after July 1, 1987 may be either an NDSL or a Perkins Loan. If the borrower has an outstanding balance on a Defense Loan or NDSL when the new loan is obtained, the new loan is an NDSL. If the borrower has no outstanding balance on a Defense Loan or NDSL when the new loan is obtained, the new loan is a Perkins Loan.



PARTICIPATION AGREEMENT AND FEDERAL PERKINS LOAN FUND

As discussed in Chapters 3 and 5, a school that wants to participate in any Student Financial Assistance (SFA) Program must sign a Program Participation Agreement (PPA) with the Secretary. The agreement must be signed by the school official legally authorized to assume, on the school's behalf, the agreement's obligations.

For all of the SFA Programs, the agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and requires the school to administer each program in accordance with the Higher Education Act of 1965 (HEA), as amended, and the Student Assistance General Provisions regulations. The agreement also requires the school to submit annually to the U.S. Department of Education a report containing information that will enable the Department to determine the school's cohort default rate (discussed in Section 8 of this chapter).

The agreement for the Perkins Loan Program also requires the school to establish and maintain a Perkins Loan fund (the fund) and to deposit into the fund—

- the Federal Capital Contribution (FCC) the school receives as its federal allocation for the program for each award year (see the next page);
- the school's matching share—the institution's capital contribution (ICC), discussed on the next page;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from the federal government for cancellations (such as teacher cancellations) of Perkins Loans and NDSLs (see Section 5 of this chapter);
- any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

ALLOCATION OF FUNDS—FEDERAL CAPITAL CONTRIBUTION

As discussed in the introduction to Chapter 5, a school applies for program funds annually through the electronic *Fiscal Operations Report and Application to Participate* (FISAP). The Department allocates funds directly to schools. The allocation for the Perkins Loan Program, the FCC is the amount of funding the school is authorized to receive from the Department for an award year. This amount is based on the funds appropriated by Congress for the program, as well as the allocation formulas, which were established by law and which do not provide for appeals.

The following provisions of the HEA and the Perkins Loan Program regulations affect the school's allocation:

- ◊ The Department bases the initial allocation of a school's FCC on the amount allocated to the school for the 1985-86 award year.

Basis for initial allocation—HEA 462(a)

- ◊ The Department reallocates funds to schools by reallocating 80% of the total funds in accordance with the statutory formula in section 462(j) of the HEA and reallocating 20% in a manner that best carries out the purposes of the Perkins Loan Program.

Basis for reallocation—34CFR 673.4(a)

- ◊ The school's matching share or ICC is one-third of the FCC (or 25% of the **combined** FCC and ICC); however, schools participating in the Expanded Lending Option (ELO) are required to provide a dollar-for-dollar match with the FCC.

School's matching share—34CFR 674.8

- ◊ If a school returns more than 10% of its FCC, the Department will reduce the school's FCC for the second succeeding year by the dollar amount returned.

- ◊ A school may transfer up to a total of 25% of its FCC for an award year to either or both the FSEOG and FWS programs.

Transfer of funds to FWS and/or FSEOG—34CFR 674.18(c)

- ◊ A school may transfer up to 100% of its initial and supplemental allocations to the Work-Colleges Program.

- ◊ A school must match any funds transferred to another program at the matching rate of that program. The school does not have to provide matching funds until the transfer has occurred.

- ◊ A school must use the transferred funds according to the requirements of the program to which they are transferred.

- ◊ A school must report any funds that are transferred to another program on the Fiscal Operations Report portion of the FISAP.

- ◊ A school that transfers funds to the FWS, FSEOG, and/or Work-Colleges programs must transfer any unexpended funds **back** to the Perkins Loan Program at the end of the award year.

- ◊ If a school's cohort default rate equals or exceeds 20%, the school's FCC will be reduced by a default penalty percentage calculated in relation to the school's cohort default rate. (See Section 8, "Default.")

Reduction of FCC for high cohort default rate—34CFR 674.5

Section 1 Student Eligibility

The eligibility criteria for Federal Perkins Loans are provided in 34 CFR 674.9. Of course, a student must also meet the student eligibility criteria of the General Provisions (34 CFR 668.32). Both undergraduate and graduate students may receive loans under the Perkins Loan Program. To be eligible for a Perkins Loan, a student must meet the general student eligibility requirements discussed in Chapter 2 of this handbook and must not have borrowed the maximum amounts listed in Section 2 of this chapter. A student who has earned a bachelor's or first professional degree may receive a Perkins Loan to pursue an **additional undergraduate** degree provided that he or she meets the eligibility requirements. A student engaged in a program of study abroad also may be eligible for a Perkins Loan.

Study abroad

An individual who is serving in a medical internship or residency program is not eligible for a Perkins Loan. This provision in Section 464(c)(2)(A)(i) of the Higher Education Act (HEA), as amended, became effective January 1, 1990 and does not apply to dental internships. A student in a dental internship may receive a Perkins Loan.

Medical interns and residents

An incarcerated student is not eligible to receive a loan from any of the U.S. Department of Education's loan programs, including the Perkins Loan Program.

Incarcerated students—34CFR 668.32(c)(2)(i)

A school must give priority to those students with exceptional financial need as defined by the school using procedures it establishes for that purpose. The school's selection procedures must be in writing, uniformly applied, and kept on file at the school. Before an undergraduate student can receive a loan, the school must determine his or her eligibility or ineligibility for a Federal Pell Grant; a preliminary hand calculation is acceptable after a student has filed a *Free Application for Federal Student Aid* (FAFSA) with the Central Processing System (CPS). Note that even if the hand calculation shows the undergraduate student will be ineligible for a Pell Grant, the student must apply for one before a Perkins Loan can be awarded. Remember that a school may not disburse a Perkins Loan to a student unless he or she has an "official" Expected Family Contribution (EFC) that has been calculated by the CPS for the same award year in which the disbursement will be made.

Exceptional financial need

Independent and less-than-full-time students

A school must offer at least 5% of the dollar amount of loans made under the Perkins Loan Program to independent students and less-than-full-time students if the Federal Capital Contribution (FCC) for the program is partly based on the financial need of these students and the financial need of these students exceeds 5% of the total financial need of all students at the school (see Chapter 5, Section 1).

Teacher certification programs

A school may award a Perkins Loan and/or a Federal Work-Study (FWS) job to a student who is enrolled or accepted for enrollment at least half time in an eligible teacher certification or professional credential program. Eligibility criteria for such a program are discussed in Chapter 5, Section 1.

ELIGIBILITY FACTORS

Willingness to repay

In selecting among eligible applicants, a school must consider evidence of a student's willingness to repay the loan. Failure to meet payment obligations on a previous loan is evidence that the student is unwilling to repay other loans. (For more information, see "Default and Student Eligibility," in Section 8 of this chapter.)

Loan that was written off

If a borrower had a previous Perkins Loan, National Direct Student Loan (NDSL), or National Defense Student Loan (Defense Loan) that was written off because the school was unable to collect, the borrower may be eligible for a new loan only if he or she reaffirms the debt. Reaffirmation is not required if the amount written off was $25 or less. To reaffirm a debt that was written off, the borrower must acknowledge the loan in a legally binding manner, such as by signing a new promissory note, by signing a new repayment agreement, or by making a payment on the loan.

Previous cancellation due to disability

If a student has obtained a cancellation of a previous Perkins Loan or NDSL due to permanent and total disability and is applying for a subsequent Perkins Loan or NDSL, the borrower may be eligible to receive additional funds from the Perkins Loan Program if he or she meets certain conditions. These conditions follow:

- ◊ the borrower's physician certifies that the borrower's condition has improved and that he or she is able to engage in substantial gainful activity, and
- ◊ the borrower signs a statement acknowledging that any new Perkins Loan or NDSL cannot be canceled in the future on the basis of any present impairment, unless the condition substantially deteriorates to the extent that the definition of total and permanent disability is again met.

Note that if a loan was canceled based on the borrower's permanent and total disability, the borrower cannot subsequently be required to repay that loan, even if the borrower's medical condition improves to the point that he or she is no longer disabled, unless the school can prove that the claim of disability was fraudulent—refer to the discussion in Section 5 of this chapter.

Previous discharge in bankruptcy

As a result of the Bankruptcy Reform Act of 1994, a student may not be denied student financial assistance from the Department's programs, including the Perkins Loan Program, solely on the basis of a bankruptcy determination. If a student has filed for or received a discharge in bankruptcy, has had a student loan discharged in bankruptcy, or has not paid a student loan that has been determined by a court of law to be dischargeable in bankruptcy, the bankruptcy may be considered as evidence of an adverse credit history but cannot be the basis for denial of a future loan from the Perkins Loan Program or other student loan programs. A student is no longer required to establish eligibility for a new student loan by agreeing to repay the loan discharged in bankruptcy. However, schools may continue to consider the student's **post**-bankruptcy credit history in determining willingness to repay the loan.

LOAN AVAILABILITY

A school must make loans reasonably available to all eligible students, to the extent of available funds, with loans made first to students with exceptional need. A school may not exclude a particular category of students. A school must offer to independent students and less-than-full-time students at least 5% of the Perkins Loan funds it advances to students for an award year if the school's FCC for that award year is partly based on the financial need of these students and the financial need of these students exceeds 5% of the total financial need of all the school's students.

Schools may set priorities

However, the school may set certain priorities when packaging aid. For example, a school could first distribute Perkins Loans to full-time third-year students whose financial need is at least $500 after their EFCs, Pell Grants, and any scholarships received have been subtracted from the cost of attendance. Perkins Loan funds may not be used exclusively for such a group, of course, but it is permissible to establish priorities.

Schools may request certain disclosures

In administering the Perkins Loan Program, a school must comply with the equal credit opportunity requirements of Regulation B (12 CFR Part 202). The Department considers the Perkins Loan Program to be a credit assistance program authorized by federal law for the benefit of an economically disadvantaged class of persons within the meaning of 12 CFR 202.8(a)(1). Therefore, a school may request that a loan applicant disclose marital status, income from alimony, child support, and spouse's income and signature.

ELIGIBILITY OF STUDENT WHO DROPS OUT

A student who drops out **before** receiving his or her Perkins Loan may be eligible to receive a payment, but only under the circumstances discussed below.

Late disbursement—34CFR 668.164(g)

A school may make a late disbursement of a Perkins Loan to an ineligible student if the student became ineligible solely because the student is no longer enrolled at the school for the award year. Before the student dropped out, the school must have received a *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR) for the student with an official EFC and have awarded the student the Perkins Loan or FSEOG. The school may make that late disbursement only if the funds are used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible, and the school must make the late disbursement no later than 90 days after the date the student became ineligible because he or she was no longer enrolled.

If a student drops out **after** receiving his or her Perkins Loan, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter 3, Section 4, "Refunds and Repayments."

section 2 Making & Disbursing Loans

A Federal Perkins Loan or National Direct Student Loan (NDSL) is considered to be made when the borrower has signed the promissory note for the award year and the school makes the first disbursement of loan funds under that promissory note for that award year. The student is required to sign the promissory note only once each award year. The borrower must sign before the school disburses any loan funds to him or her under that note for that award year. However, a school may require a borrower to sign for each advance if it chooses to do so.

34 CFR 674.16(c)(2)

A financial aid administrator may not award or disburse a Perkins Loan or NDSL to a student if the combination of that loan and all of the student's other resources would exceed the student's need. The aid administrator must take into account those resources that he or she can reasonably anticipate at the time aid is awarded to the student, those the school makes available to its students, or those the aid administrator knows about. A list of resources and a discussion of overawards are in Chapter 5, Section 2.

Financial need - Other resources

Uniform cash management rules for the Student Financial Assistance (SFA) Programs cover disbursing funds to a student, crediting a student's account, calculating allowable charges, and holding student loans. They are discussed in Chapter 3, Section 3. The major provisions affecting Perkins Loan disbursement are discussed on pages 6-17 to 6-20.

Disbursement of SFA funds— 34CFR 668.164

LOAN MAXIMUMS

Maximum loan eligibility

If a student is attending a school that does **not** participate in the Perkins Loan Program's Expanded Lending Option (ELO), which is discussed below, the maximum amount an eligible student may borrow is

- ◊ $3,000 per award year for a student who has not successfully completed a program of undergraduate education or
- ◊ $5,000 per award year for a graduate or professional student.

The maximum cumulative amount an eligible student may borrow at schools that do **not** participate in the ELO is

- ◊ $15,000 for a student who has not successfully completed a program of undergraduate education or
- ◊ $30,000 for a graduate or professional student, including loans borrowed as an undergraduate student.

Expanded Lending Option (ELO)

A school that maintains a cohort default rate of 15% or less may participate in the ELO if the school has signed an ELO participation agreement with the Department. (Cohort default rates are discussed in Section 8 of this chapter.)

Schools participating in the ELO are required to match the Federal Capital Contribution (FCC) on a dollar-for-dollar basis, and they may make loans to students at higher award-year and cumulative loan limits than nonparticipating schools.

Loan limits at ELO schools

If a student is attending a school that participates in the ELO, the maximum amount the student may borrow is

- ◊ $4,000 per award year for a student who has not successfully completed a program of undergraduate education or
- ◊ $6,000 per award year for a graduate or professional student.

The maximum cumulative amount an eligible student may borrow at a school that participates in the ELO is

- ◊ $20,000 for a student who has successfully completed two years of a program leading to a bachelor's degree but who has not completed the work necessary for the degree;
- ◊ $40,000 for a graduate or professional student, including loans borrowed as an undergraduate student; or
- ◊ $8,000 for all other students.

Effect of repayment on loan limit

All of the cumulative maximum amounts listed here include all Defense Loans, NDSLs, and Perkins Loans a borrower may have. Unlike repayment in the Federal Family Education Loan (FFEL) Program, repayment in the Perkins Loan Program does not establish a new cumulative loan limit. For example, a student who had borrowed the maximum cumulative amount for a graduate or professional student would not be eligible for another loan even if the student had repaid part or all of the amount he or she borrowed.

Study abroad

A student engaged in a program of study abroad may receive a Perkins Loan provided that he or she meets all eligibility requirements. A student studying abroad in a program approved for credit by the home school where the student is enrolled may exceed the annual and/or cumulative loan limits by 20% if reasonable costs of the program exceed the cost of attending the home school.

Loans limits for teacher-certification students

A student enrolled in a teacher certification program may be considered either an undergraduate or a graduate student. This determination is left to the student's school. The borrowing limit for a student enrolled in a teacher certification program depends on the school's determination of his or her status (undergraduate or graduate). A teacher-certification student who is considered to be a graduate student and who has already borrowed the cumulative maximum allowed for an undergraduate is eligible to receive an additional Perkins Loan or NDSL. A teacher-certification student who is considered to be an undergraduate student and who has already borrowed the cumulative maximum allowed for an undergraduate is not eligible to receive an additional Perkins Loan or NDSL.

COUNSELING STUDENTS

School must provide certain information

Before **making the first Perkins Loan or NDSL disbursement,** the school must have the student sign the promissory note. (See Section 2 of this chapter.) The school must also furnish the student with certain information. It must inform the student about his or her rights and responsibilities under the Perkins Loan Program, and it must inform him or her that the loan may be used only for educational expenses and that he or she must repay the loan. The school should also make sure the student knows that the **school** holds the promissory note.

A school must also provide the student with the following information in writing before making the first loan disbursement:

1. the name of the school and the addresses where payments and communications should be sent;
2. a statement indicating that the school will report the outstanding balance of the loan to a national credit bureau at least annually;
3. the principal amount of the loan;
4. the stated interest rate;
5. the maximum yearly and cumulative amounts the student may borrow;

6. an explanation of when the student must start repayment and when he or she must begin paying the interest that accrues;

7. the maximum and minimum repayment terms the school may impose and the minimum monthly payment required;

8. a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;

9. options the borrower may have to consolidate or refinance;

10. the borrower's right to prepay all or part of the loan at any time without penalty;

11. a summary of circumstances in which repayment of the loan principal or interest may be deferred or canceled, including a brief notice about the Department of Defense program for repaying loans based on certain military service;

12. a definition of default and the consequences for the borrower, including a statement that the school may report the default to a national credit bureau;

13. the effect that accepting the loan will have on the borrower's eligibility for other types of student aid;

14. a complete list of charges connected with making the loan, including whether those charges are deducted from the loan or whether the student must pay them separately; and

15. an explanation of the costs that may be assessed the student in collecting the loan, such as late charges and collection and litigation costs.

The school must provide this information to the student—in writing—as part of the application material, as part of the promissory note, or on a separate form. Although the information can be mailed to a student, it is preferable for the aid administrator to meet with the student to answer any questions and to emphasize his or her responsibility to repay the loan.

Obtain information from students

The school is encouraged to use this initial counseling session to obtain the following information from a student:

◊ the student's name, current address, and Social Security Number;

◊ the student's parents' permanent address;

- ◊ the student's and his or her parents' telephone numbers;
- ◊ the student's expected date of graduation;
- ◊ the student's spouse's name and address;
- ◊ the student's spouse's employer;
- ◊ the names and addresses of two or three of the student's personal acquaintances; and
- ◊ the student's drivers license number, if any.

This information could be valuable later for use in collection procedures, and it will help the school locate a student who leaves school without notice or who does not attend the exit interview. Effective pre-loan counseling sessions will satisfy the school's requirement to tell each borrower about his or her rights and obligations and to provide information about the requirement to repay the loan. However, this counseling may not be used to satisfy the requirement for an exit interview. (See Section 6 of this chapter for more information.)

THE PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. A student must sign this note before he or she can receive any Perkins Loan funds and must be given a copy of the note at (or before) the exit interview. The note includes information about the loan's interest rate, repayment terms, and minimum rates of repayment; deferment, forbearance, and cancellation provisions; collection costs; attorney fees; and late charges.

Dear Colleague Letters CB-93-9 and CB-96-8

The Department has issued two sets of different promissory notes, either of which a school may use. Dear Colleague Letter CB-93-9, dated July 1993, included information and sample promissory notes. The Department issued redesigns of the July 1993 promissory notes in Dear Colleague Letter CB-96-8, dated May 1996. Both sets of notes (July 1993 and May 1996) include all changes required by the Higher Education Amendments of 1992. A school must use a promissory note that the Department has approved; the school may make only nonsubstantive changes to the note (such as changes to the type style or the addition of items such as the borrower's driver's license number).

A promissory note must state that the school is required to disclose to any one of the national credit bureaus with which the Department has an agreement the amount of the loan made to the borrower along with other relevant information. The note must also state that if the borrower

defaults on the loan, the school or the Department, if the loan is assigned to the Department for collection, is required to disclose the default and any other relevant information to the same national credit bureau to which the loan was originally reported.

Minor who signs promissory note

The Higher Education Amendments of 1992 eliminated the "defense of infancy," whereby the signing of a contract by a minor would not create a binding obligation. Under this provision of the law, a minor may sign a promissory note without an endorser or any security, and the minor who signs is responsible for repayment regardless of any state law to the contrary.

If the school does not have a valid note or other written evidence that would be upheld in a court of law, the school has no recourse against a borrower who defaults. In such cases, the school would have to repay to its Perkins Loan fund any amounts loaned, whether recovered from the borrower or not, as well as any Administrative Cost Allowance (ACA) claimed on those amounts. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates for loan advances.

COMPARISON OF JULY 1993 NOTES WITH MAY 1996 NOTES

The Department redesigned the July 1993 promissory notes to facilitate implementing the signature requirement change, which allows a school to obtain a borrower's signature on the note only once each award year, rather than each time a disbursement is made. The May 1996 promissory note is a single-page (front and back) document. Separate promissory notes based on the borrower's enrollment status (half time or greater or less than half time) have been eliminated, as were separate sections for obtaining information on prior Perkins Loans and for obtaining a borrower's signature for each loan advance.

There are no new provisions in the May 1996 notes. A school still has the option of using a closed-end or open-ended note. The sample promissory notes issued in July 1993 are open-ended notes. Those issued in May 1996 are provided in both formats. As stated previously, a school is not required to use the May 1996 notes. If a school chooses to use the July 1993 promissory notes, it will be required to obtain the borrower's signature for each advance (disbursement) of the loan. **A school may not alter the July 1993 promissory notes to reflect the changed signature requirement.** A borrower for whom the school uses a July 1993 note is required to sign at the end of the last page of the note.

CHANGES IN LOAN AMOUNT—MAY 1996 NOTES

Decrease in loan amount

If a student's initial loan amount **decreases**; the borrower has signed either an open-ended or a closed-end May 1996 promissory note; and a disbursement has been made, the school can choose one of the following options:

- ◊ It may leave the loan amount unchanged. (The school's disbursement records will reflect the decreased loan amount. The school may also attach a statement to the promissory note to explain the decreased loan amount.)

- ◊ It may change the face of the promissory note to reflect the decreased loan amount. This option requires that both the student and appropriate school official initial the decrease. A school must not unilaterally change the amount of the loan.

Increase in loan amount

If the student has signed the promissory note and the initial loan amount **increases after a disbursement has been made**, the action a school must take depends on the type of promissory note involved:

- ◊ If the student signed a closed-end promissory note, the school **must** issue a new closed-end note reflecting only the increase from the original loan amount.

- ◊ If the student signed an open-ended promissory note, the school **must** reflect only the increase in the loan amount on the next line of the note.

SCHOOL-DESIGNED NOTE

A school may develop its own notes, which may include some or all of the optional provisions in the Department-provided note. However, a school-designed note must include **all** of the required information and must be based on the sample notes the Department has provided. A school may not change the text or the order of the text in the Department-provided notes, and a school may not add provisions to the note. The school may add such information as the student's driver's license number to the note.

There is no minimum size of type or print specified for the notes. However, the notes must be legible so that a borrower would not be able to claim a defense against repayment of the loan because the print was too small to be read.

MINIMUM MONTHLY PAYMENT OPTION

Optional provisions regarding a minimum monthly payment amount are included in the July 1993 sample promissory notes (bracketed paragraphs III(5)(A) and III(5)(B)), and a school may choose to include these provisions. However, a school must either include both paragraphs or omit both paragraphs. If a school includes both paragraphs in the promissory note, the note must state the exact minimum monthly payment amount. If a school does not include the minimum monthly payment option in the note, the school may not require a minimum monthly payment amount from the borrower.

The optional provision regarding a minimum monthly payment amount is included as a single, optional sentence at the end of the repayment paragraph on page 1 of the May 1996 promissory notes. A school would include this sentence in the promissory note if the school is exercising the minimum monthly payment amount provision. Page 2 of the May 1996 promissory notes includes a summary of this provision.

If the optional provisions are included in the school's note, a minimum monthly payment of $40 is required for a loan made on or after October 1, 1992 to a borrower who had no outstanding balance on a Perkins Loan, NDSL, or Defense Loan on the date the loan was made. (For other borrowers, the monthly minimum amount remains $30.)

CLOSED-END AND OPEN-ENDED PROMISSORY NOTES

If a school is developing its own notes, it may use either "closed-end" ("limited") or "open-ended" notes. A note may be printed on more than one sheet of paper if the borrower signs each page or if each page contains the number of that page plus the total number of pages in the note (for example, page 1 of 3, page 2 of 3).

Time limit for closed-end notes

- **"Closed-end" or "Limited" Note.** This note is valid for not more than 12 months and usually covers one award year or one academic year. It may also be used for a single academic term. The loan amount must be entered in the note. Closed-end notes can be designed for a single disbursement (if the award is less than $501) or multiple disbursements. If a school uses multiple disbursements and uses the July 1993 promissory notes, the borrower must sign for each advance. If there will be only one disbursement, the borrower's signature at the end of the note is sufficient.

- **"Open-ended" Note.** If a school uses an open-ended note, it does not have to issue new notes for future loans it makes to the same borrower **unless** the requirements of the Perkins Loan

Program are changed by statute or regulation. An open-ended note may be used for several years.

The sample notes in Dear Colleague Letter CB-93-9 are open-ended notes. This open-ended note does not itself contain the specific amount of the approved loan. Instead, at the time of each disbursement, the school must enter the amount advanced and the date of receipt in the "Schedule of Advances," which is a part of the note. The borrower must sign this schedule **each time** he or she receives a disbursement. **It is not acceptable for the student to sign in advance.**

Dear Colleague Letter CB-96-8 also provides an open-ended note. Unlike the July 1993 open-ended note, this open-ended note contains the specified amount of the approved loan for each award year.

Requirements for loans that have been paid in full

When a borrower has fully repaid a loan, the school must mark the note "paid in full," have it certified by an official of the school, and give the original note to the borrower. The school must keep a copy of the note for at least three years after the date the loan was repaid in full.

GENERAL DISBURSEMENT REQUIREMENTS

A school must disburse Federal Supplemental Educational Opportunity Grant (FSEOG) funds to a student or the student's school account in accordance with the cash management regulations discussed in detail in Chapter 3, Section 3. The cash management requirements that apply specifically to the campus-based programs are discussed in Chapter 5, Section 3.

The disbursement provisions that are specifically applicable to Perkins Loans follow:

Notification of student's right to cancel loan—34CFR 668.165(a)

◊ If a school credits a student's account at the school with Perkins Loan funds, the school must notify the student of the date and amount of the disbursement, the student's right to cancel all or a portion of that loan and his or her right to have the funds returned to the school's Perkins fund.

◊ The school must send the above notice, either in writing or electronically, within 30 days of the date the school credits the student's account at the school. If the school sends the notice electronically, the school must require the student to confirm receipt of the notice, and must keep a copy of the confirmation.

◊ The school must return the Perkins Loan proceeds, cancel the loan, or do both if

- it receives a loan cancellation request within 14 days after the school sends the notice to the student, or
- the school sends the notice more than 14 days before the first day of the payment period, and the school receives a loan cancellation request by the first day of the payment period.

◊ If the school does not receive the cancellation request within the time period described above, the school may return the loan proceeds, cancel the loan, or do both, but is not required to do so. The school must notify the student in writing or electronically of the school's decision.

A school may not disburse funds for a payment period until the student enrolls for that period.

The school must report the disbursement and amount of each Perkins Loan or NDSL to a national credit bureau with which the Department has an agreement. See Section 10 for further details on complying with this requirement.

34CFR Section 674.16(f)

Keep in mind that if a school makes payments before the student begins attendance, it must accept responsibility for any overpayment. If a student withdraws—or is expelled—before the first day of classes, for example, all funds disbursed are considered an overpayment and must be restored to the Perkins Loan fund. A student who never begins class is considered to have withdrawn.

Power of attorney—34CFR Section 674.16(i)

A school official may not obtain a student's power of attorney to endorse any check used to disburse funds or to sign for any loan advance unless the Department has granted prior approval. The Department would not grant such a power of attorney unless the school could demonstrate that there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student. There are no exceptions to gaining prior approval to obtain a student's power of attorney. For a student studying abroad, the school does not automatically obtain the student's power of attorney; the school will still be required to request the Department's approval and to demonstrate that there is no one else who can act on behalf of the student.

FREQUENCY OF DISBURSEMENTS

A school that is awarding a Perkins Loan for a full academic year must advance a portion of the loan during each payment period, **even if it does not use standard academic terms**. Prior to July 1, 1997, a school was required to advance a portion of a Perkins Loan during each payment period only if the school used standard academic terms. A school that did not use standard academic terms was required to advance funds at least twice during the academic year—once at the beginning and once at the midpoint.

In general, to determine the amount of each disbursement, a school will divide the total loan amount by the number of payment periods the student will attend. The definition of payment period is in 34 CFR 668.4. For a school that measures progress in credit hours and has academic terms, a payment period is defined as a term (a semester, trimester, quarter, or nonstandard term). The definition of payment period for a school that does not have academic terms or a school that measures progress in clock hours is discussed in detail in Chapter 3, Section 3.

A school may advance funds **within** a payment period in whatever installments it determines will best meet the student's needs. However, if the total amount awarded a student under the Perkins Loan Program is less than $501 for an academic year, only one payment is necessary.

Student attending less than a full academic year

For a student attending less than a full academic year, the amount advanced is determined by dividing the loan amount by the number of payment periods the student will attend in the academic year. Only one payment is necessary if the total Perkins Loan amount awarded to a student for an academic year is less than $501.

UNEVEN COSTS/UNEQUAL DISBURSEMENTS

If a student incurs uneven costs or resources during an academic year and needs additional funds during a payment period, the school may advance the additional amount **regardless of whether the school uses standard academic terms**. Suppose that a student who will receive a $1,000 Perkins Loan must spend $300 for books and supplies at the beginning of the school year. That $300 could be disbursed along with the first payment. To determine the first payment, subtract the extra amount (in this case, $300) from the total loan and divide the remainder by the number of payment periods. The regular amount for one payment period is then added to the extra amount to determine the initial payment.

A school that has a two-semester system would determine the payments as follows:

$1,000	Total loan
- $ 300	Additional costs at beginning of school
$ 700 ÷	2 payment periods = $350 regular payment
$ 350	Regular payment
+ $ 300	Extra for books and supplies
$ 650	Total first disbursement
	($350 would be the second disbursement)

Within a payment period, the school may advance funds in whatever installments it determines will best meet the student's needs.

LATE DISBURSEMENTS

A school may make a late disbursement of a Perkins Loan to an ineligible student if the student became ineligible solely because the student is no longer enrolled at the school for the award year. Before the student dropped out, the school must have received a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the student with an official EFC and have awarded the student the Perkins Loan. The school may make that late disbursement only if the funds are used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible, and the school must make the late disbursement no later than 90 days after the date the student became ineligible because he or she was no longer enrolled.

Section 3 Repayment

GRACE PERIODS

Initial grace period

A "grace period" is the period of time before the borrower must begin or resume repaying a loan. An "initial grace period" is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

Grace period depends on when loan was made

For borrowers who have been attending at least half time, initial grace periods are either six or nine consecutive months after the borrower drops below half-time study at an eligible institution or at a comparable school outside the United States. The length of the initial grace period varies because of legislative changes to the Federal Perkins Loan Program. Repayment terms also vary, depending on when a borrower took out a loan. If a borrower has several loans, each is subject to the repayment terms in effect at the time the particular loan was made.

If a borrower requests a deferment to begin during the initial grace period, the borrower must waive (in writing) his or her rights to the initial grace period. The request for a deferment alone is not sufficient documentation for a school to waive the initial grace period; the borrower must also acknowledge in writing that he or she wants the waiver. (Deferments are discussed in Section 4, "Forbearance and Deferments.")

Differences between Perkins Loan and NDSL grace periods

Repayment of a Perkins Loan begins **nine months** after the date that the borrower drops below half-time enrollment. Repayment of a National Direct Student Loan (NDSL) made before October 1, 1980, begins **nine months** after the date that the borrower drops below half-time enrollment. Repayment of an NDSL made on or after October 1, 1980 begins **six months** after the date that the borrower drops below at least half-time enrollment.

For a student attending at least half time, the initial grace period does not end until he or she ceases to be enrolled at least half time for a **continuous** period of six or nine months, whichever is applicable. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period, calculated as six or nine consecutive months, from the date that he or she drops below half-

time enrollment again. Suppose, for example, that a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full initial grace period once he or she again leaves school or drops below half-time status.

Post-deferment grace period

A "post-deferment grace period" is the period of six consecutive months that immediately follows the end of a period of deferment and precedes the date on which the borrower must resume repayment on the loan. A Perkins Loan or NDSL made on or after July 1, 1993 has a six-month post-deferment grace period after each of the authorized deferments, **including** the economic hardship deferment. A Perkins Loan or all NDSL made on or after October 1, 1980 but before July 1, 1993, has a six-month post-deferment grace period after each of the deferments that apply to those loans **except** the hardship deferment. Neither the deferment nor the grace period is counted as part of the 10-year repayment period.

It is important to note that grace periods are always day-specific; that is, an initial grace period begins on the day immediately following the day the borrower drops below half-time enrollment. Likewise, a post-deferment grace period begins on the day immediately following the day on which an authorized period of deferment ends.

GRACE PERIODS
(Borrowers Attending at Least Half Time)

Type of Grace Period	Federal Perkins Loans	NDSLs made on or after 10/1/80	NDSLs made before 10/1/80
Initial	9 months	6 months	9 months
Post-Deferment	6 months	6 months	None

Differing grace periods for a borrower

If a borrower has received loans with different grace periods (and different deferment provisions), the borrower must repay each loan according to the terms of its promissory note; the borrower must pay the minimum monthly payment amount that applies to each loan that is not in a grace or deferment period.

GRACE PERIOD FOR BORROWER ATTENDING LESS THAN HALF TIME

Borrower with outstanding loan(s)—34CFR 674.32

A borrower who is attending **less than half time** and who has an outstanding Perkins Loan or NDSL must begin repayment on an **additional** loan when the **next scheduled installment** of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

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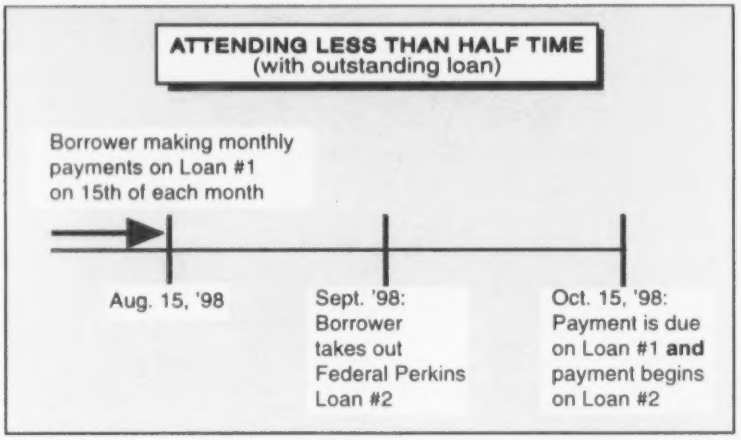
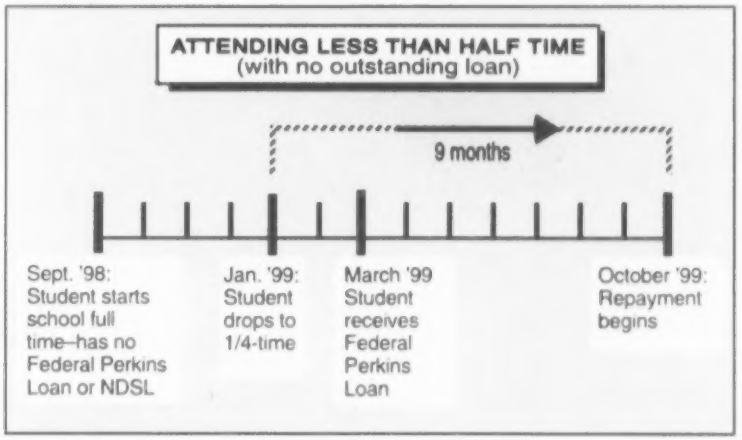
Suppose the borrower has been making monthly payments on Perkins Loan #1. He takes out Perkins Loan #2 in September 1998. His next payment on Loan #1 is due October 15. Therefore, he will begin repaying Loan #2 at the same time. **Remember that the repayment status of the outstanding loan determines the repayment status of the second loan.**


ATTENDING LESS THAN HALF TIME
(with outstanding loan)
Borrower making monthly payments on Loan #1 on 15th of each month
Aug. 15, '98
Sept. '98: Borrower takes out Federal Perkins Loan #2
Oct. 15, '98: Payment is due on Loan #1 **and** payment begins on Loan #2

Borrower with no outstanding loan(s)—34CFR 674.32

A borrower who is attending less than half time and who has no outstanding Perkins Loan or NDSL must begin repaying a new loan nine months from the date the loan is made **or** nine months from the date the borrower ceases to be enrolled as a regular student on at least a half-time basis,[1] **whichever is earlier**.

For example, a student starts school full time in September 1998. She does not have an outstanding Perkins Loan or NDSL. In January 1999, she drops to one-quarter time. In March, she receives a Perkins Loan. Nine months after the date the loan was made is December. Nine months after the time she dropped below half-time enrollment is October, and this nine-month period includes the date the loan was made. Because October is earlier than December, she must begin repayment in October.


ATTENDING LESS THAN HALF TIME
(with no outstanding loan)
9 months
Sept. '98: Student starts school full time–has no Federal Perkins Loan or NDSL
Jan. '99: Student drops to 1/4-time
March '99 Student receives Federal Perkins Loan
October '99: Repayment begins

[1] This nine-month period includes the date the loan was made.

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PREPAYMENT

Payments received during the academic year the loan was made

The borrower may prepay all or part of the loan at any time without penalty. Amounts repaid **during the academic year the loan was made** and **before the initial grace period has ended** are not considered prepayments, but **must be used to reduce the original loan amount.**

For example, suppose that a borrower receives a $1,000 Perkins Loan and that his grandmother gives him $400 during the academic year in which the loan is made. He receives the $400 before the initial grace period ends. The borrower applies the money to his Perkins Loan. The principal advanced to the borrower becomes $600. This is not considered a prepayment because the original loan amount has been reduced.

Prepaying after the initial grace period

If the borrower repays **more than the amount due** for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates the excess as an advance payment on the next regular installment. If the borrower designates the excess as an advance payment on the next installment and that advance payment exceeds the amount of the next regularly scheduled installment, the school must use the excess to prepay principal.

REPAYMENT PLAN

Before the student ceases to be enrolled at least half time, the school must establish a repayment plan. The following provisions apply to the plan:

34CFR 674.33

- If the last scheduled payment is $25 or less, the school may combine it with the next-to-last payment.
- If the installment for all loans a school made to a borrower is not a multiple of $5, the school may round that payment to the next highest dollar amount that is a multiple of $5.
- Any payment a school receives must be applied in the following order:
  1. collection costs,
  2. late charges (or penalty charges),
  3. accrued interest, and
  4. principal.

If a student receives loans from more than one school, the repayment of each loan is made to (or default is attributed to) the school where the student received the loan.

Loans at more than one school

EXIT INTERVIEW AND REPAYMENT SCHEDULE

At the time a borrower leaves school, the school must conduct an exit interview, during which a repayment schedule is provided to the borrower. (See Section 6 of this chapter for more information.) The U.S. Department of Education recommends a repayment schedule that shows the principal and interest due on each installment and the amount left to be paid. This type of schedule is not a requirement; however, a repayment schedule should contain at least

34CFR 674.42

- ◊ the number of payments of principal or the number of equal payments,
- ◊ the rate of interest,
- ◊ the date the first payment is due, and
- ◊ the frequency of payments.

Repayment schedule provisions

DEVELOPING A REPAYMENT SCHEDULE

Interest on a loan must be computed at the rate of 5% per annum simple interest on the unpaid principal balance. Interest accrues on a Perkins Loan; it is not capitalized. Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past-due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary. Past-due payments should be applied in the same order as other payments, except that past-due payments must be applied to the "oldest" past-due dollars first.

To calculate the amount due in each payment over a period of 10 years, including principal and interest, a school may use the following table of constant multipliers. The table is based on the assumption that the school will not exercise a minimum monthly payment option. Using this table will ensure that each of the borrower's payments sufficiently covers the interest accruing between payments and that the loan will be repaid within the specified amount of time.

10-year repayment table

Annual Rate	Payment Frequency	Payments per Year	Total Payments	Constant Multiplier
5%	Monthly	12	120	.0106065
5%	Bimonthly	6	60	.0212470
5%	Quarterly	4	40	.0319214

MINIMUM MONTHLY REPAYMENT AMOUNTS

A school may require a borrower to pay a minimum monthly payment amount on an NDSL or on a Perkins Loan[2] if

- ◊ the promissory note includes a provision specifying a required amount for the minimum payment and the monthly repayment of principal and interest for a 10-year repayment period is less than the minimum monthly payment or
- ◊ the borrower has received loans with different interest rates at the same school and the total monthly payment would otherwise be less that the minimum monthly payment.

If the promissory note includes the optional minimum monthly payment provisions, the school may require the borrower to repay a monthly amount of at least $40—or $30 in the case of certain loans.

A school may require a borrower to pay at least $40 per month (or the equivalent in bimonthly or quarterly payments) if

- ◊ the monthly payment amount over a 10-year repayment period is less than $40[3] for a loan made on or after October 1, 1992 to a borrower who, at the time the loan was made, had no outstanding loan balance on a Perkins Loan, NDSL, or National Defense Student Loan (Defense Loan) **and**
- ◊ the promissory note includes an optional $40 minimum monthly payment provision.

A school may require a borrower to pay at least **$30** per month (or the equivalent in bimonthly or quarterly payments) if

- ◊ the monthly payment amount over a 10-year repayment period is less than **$30;**[3]

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[2] The minimum monthly payment amount for a Defense Loan was $15.

[3] A student's monthly payment amount may need to be higher than $40 (or $30), of course, so that his or her debt is repaid by the end of 10 years.

◊ the loan is

- a Perkins Loan or NDSL made before October 1, 1992 or
- a Perkins Loan or NDSL made on or after October 1, 1992 to a borrower who, at the time the loan was made, had an outstanding loan balance on a Perkins Loan, NDSL, or Defense Loan; **and**

◊ the promissory note includes an optional $30 minimum monthly payment provision.

Proportional repayment under minimum $40 (or $30) option

The regulations require a school to divide the $40 (or $30) minimum monthly payment among the loans in the same proportion that the original loan principal of each loan bears to the total original principal of all loans. Thus, if the total monthly payment amount for more than one loan would otherwise be **less than the applicable minimum monthly payment amount** and if a school exercises the minimum monthly payment option, the 10-year table of constant multipliers cannot be used.

For example, suppose that a borrower with Perkins Loans of $1,500 and $1,000 (for a total debt of $2,500) has a promissory note that includes the minimum monthly payment provision. Using the constant multiplier table, the total monthly payment on the two loans would be less than $40:

$1,500 X .0106065 = $15.91 per month on loan #1

$1,000 X .0106065 = $10.61 per month on loan #2

$26.52 total payment per month

Because the monthly payment on the two loans is less than $40, the school may decide to exercise the minimum $40 payment option. If the school does so, the monthly payment for each loan is calculated by dividing the original principal of the loan by the total original principal of all loans:

$1,500 ÷ $2,500 = .600000 X $40 = $24 per month on loan #1

$1,000 ÷ $2,500 = .400000 X $40 = $16 per month on loan #2

$2,500 $40 total payment per month

If the borrower has received loans with different grace periods and deferments, the school must treat each note separately, and the borrower must pay the minimum monthly payment that is applicable to each loan that is not in a grace or deferment period.

Minimum monthly payment amount and loans from more than one school

A borrower may have received Perkins Loans or NDSLs from more than one school. If only **one** school exercises the $40 (or $30) option when the total monthly payment amount is less than $40 (or $30), that school receives the difference between $40 (or $30) and the repayment owed to the second school.

Suppose that School A, which does not exercise the minimum monthly payment option, receives $25 a month (the amount due under its established 10-year repayment plan). School B, which exercises the $40 option, would receive $15, the difference between $40 and the amount of principal and interest paid to School A.

If a borrower has obtained Perkins Loans or NDSLs from more than one school and **each** school exercises the minimum repayment option, the $40 or $30 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the total monthly repayment is **less than $40 (or $30)**, a school may exercise the minimum repayment options applicable to the respective loans. However, the maximum monthly repayment may not exceed $40 (or $30).

If the borrower owes funds to more than one school, he or she should contact any school that is exercising a minimum monthly payment option and should provide the following information:

- ◊ the names of all other schools to which the borrower owes funds under the Perkins Loan Program;
- ◊ the approximate amount of the indebtedness to each school; and
- ◊ any information that would help identify the loans—for example, the loan number and the dates of loan advances.

The school the borrower contacts should then contact the other schools and negotiate the amount each should receive from the borrower.

Minimum monthly payment amount and different interest rates from the same school

If a borrower has loans with different interest rates from the same school and if the borrower's total monthly repayment is **at least** $40 (or $30) for all loans, the school may not exercise the minimum monthly payment on any loan. If the total monthly repayment is **less than** $40 (or $30), the school may exercise the $40 (or $30) option, as long as the minimum monthly repayment provision was included in the promissory note. If the school exercises this option, the school must divide each monthly payment among all loans proportionate to the amount of principal advanced under each loan.

A school may reduce a borrower's scheduled payments for up to one year at a time if the borrower is paying the $40 (or $30) minimum monthly payment amount and if the school determines that the borrower is unable to make the scheduled payments due to hardship, such as prolonged illness or unemployment.

Minimum repayment amount and hardship

ESTABLISHING REPAYMENT DATES

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period or as prescribed in the terms of the promissory note.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart below.)

Standard dates for quarterly repayment

EXAMPLE OF FEDERAL PERKINS LOAN QUARTERLY BILLING
With Four Standard Repayment Dates

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	January 1
March 1	November 30	January 1
April 1	December 31	April 1
May 1	January 31	April 1
June 1	February 28	April 1
July 1	March 31	July 1
August 1	April 30	July 1
September 1	May 31	July 1
October 1	June 30	October 1
November 1	July 31	October 1
December 1	August 31	October 1

Another type of repayment schedule is a "rolling" quarterly repayment schedule in which each borrower's first repayment is due exactly three months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19.

"Rolling" quarterly repayment schedule

Effect of deferment on repayment dates

For collection and bookkeeping purposes, a fixed repayment date is preferred. Otherwise, if the borrower is entitled to a deferment, the school may have problems computing payments due. (See Section 4 of this chapter.) Once the payment date is established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date on which the borrower is out of deferment.

INTEREST RATES

The interest rate charged on the unpaid balance of a Defense Loan, NDSL, or Perkins Loan depends on when the loan was made. The interest rate is stated in the borrower's promissory note. The annual interest rate for loans made

- ◊ before July 1, 1981 was 3%;
- ◊ between July 1, 1981 and September 30, 1981 was 4%;
- ◊ on or after October 1, 1981 is 5%.

Computing interest

Interest on loans made on or after October 1, 1981 is computed at the rate of 5% per annum simple interest on the unpaid principal balance. Interest should be computed from the date when the payment is received rather than from the due date; however, interest charges may be computed to the nearest first-of-the-month, or they may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule.

LENGTH OF REPAYMENT PERIOD

Maximum repayment period and repayment plans

The term "repayment period" generally refers to the span of time the borrower is given to repay his or her loan—usually a maximum of 10 years from the time repayment begins. (For the exception, see the discussions of hardship and low-income individual that follow.) A borrower must repay his or her loan, plus interest, in quarterly, bimonthly, or monthly installments over a 10-year period. The length of a repayment period may be less than 10 years because of minimum monthly payment requirements. Remember that a repayment period **never** includes authorized periods of deferment, forbearance, or cancellation.

If a borrower wants to repay the loan in graduated installments, he or she must request permission to do so from the school; if the school agrees to this type of repayment, a graduated repayment schedule is prepared and

submitted to the Department for approval. If the Department approves the school's request, the borrower may use the graduated method of repayment.

Extension of repayment for hardship

A school may **extend** a repayment period if the borrower is experiencing a period of prolonged illness or unemployment or if the borrower is a "low-income individual" (defined on the next page). Interest continues to accrue during an extension of a repayment period for any of these reasons.

Extension of repayment for a low-income individual

For NDSLs made on or after October 1, 1980 and for all Perkins Loans, a school may extend the borrower's repayment period up to 10 additional years if, during the repayment period, the school determines that the borrower qualifies as a low-income individual. The school must review the borrower's status annually to determine whether he or she still qualifies. Once a borrower no longer qualifies, his or her repayment schedule must be amended so that the number of months in it does not exceed the number of months remaining on the original repayment schedule (not counting the extension period).

Other adjustments for low-income individuals

There are two other ways that a school may adjust the repayment schedule for a borrower who qualifies as a low-income individual:

1. The school may require the borrower to pay a reduced amount for a limited time and then later increase the payment amount so that the borrower catches up on payments. For example, a school reduces the payment amount to $10 per month for six months and then increase it to $50 per month until the borrower catches up. The repayment period does not have to be extended.

2. The school may allow the borrower to pay $10 per month for a year and then resume normal payments. This type of adjustment extends the repayment period.

Definition of "low-income individual"—34CFR 674.33(c)(2)

The definition of low-income individual is based on the maximum income levels in the Income Protection Allowance (IPA) chart published annually in the *Federal Register*. The IPA chart for the 1998-99 award year was published May 31, 1997. See the maximum income levels for the 1998-99 award year in the chart that follows.

1. For an unmarried borrower without dependents, a low-income individual is one whose total income for the **preceding calendar year** did not exceed 45% of the IPA for the **current award year** for a family of four with one in college. For the 1998-99 award year, an unmarried borrower without dependents is a low-income individual if his or her 1997 income was $8,330 or less.

2. For a borrower with a spouse or legal dependents, a "low-income individual" is one whose total family income for the **preceding calendar year** did not exceed 125% of the IPA for the **current award year** for a family equal in size to that of the borrower's family with one family member in college.

Low-Income Individual
Maximum 1997 Income Levels for 1998-99 Award Year
(derived from Income Protection Allowances published in the May 31, 1997 *Federal Register*

Number of Family Members (including student)	1	2	3	4	5	6
Maximum 1997 Income Level	$8,330	**$15,038**	$18,738	**$23,138**	$31,938	**$35,538**

NOTE: For families of more than 6, add $3,600 for each additional family member.

DISPOSITION OF PROMISSORY NOTE AND REPAYMENT SCHEDULE

The school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid in full or until the original note and schedule are needed in order to enforce loan collection. Only authorized personnel may have access to these records.

Promissory notes for loans made prior to December 1, 1987 include a requirement to attach the repayment schedule to the promissory note. If a promissory note has this requirement in the "Repayment" section of the note, the lending school must be careful to attach the repayment schedule to that note. Promissory notes for loans made after December 1, 1987 do not include such a requirement.

If the original promissory note is released for the purpose of enforcing repayment, the school must keep a certified true copy. To qualify as a certified true copy, a photocopy (front and back) of the original promissory note must bear the following certification statement signed by the appropriate school official:

"CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original Promissory Note.

Signature: _____

Title: _____

Date: _____"

At the exit interview, the school must provide a copy of the signed promissory note and the signed repayment schedule to the borrower. If the school is unable to obtain a **signed** repayment schedule, the school must provide the borrower with the schedule he or she will follow in repaying the loan.

Error in promissory note

If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign by or initial all approved changes in the note.

Loan that is paid in full

When a loan has been repaid, the school should mark the note with the phrase "PAID IN FULL" and with the date the loan was paid in full, have the note certified by a school official, and give or mail the original note to the borrower. The school must keep a copy of the note for at least three years after the date the loan is paid in full.

Because a borrower must reaffirm a Perkins Loan that has been written off before he or she is eligible to apply for future federal student aid, the Department recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the three-year record retention requirement.

Section 4 Forbearance & Deferment

FORBEARANCE

Definition of forbearance

If a borrower is willing but financially unable to make the required payments on a loan, he or she may request that the school grant forbearance. Forbearance is a temporary postponement of payments, an extension of time allowed for making payments, or the acceptance of smaller payments than were previously scheduled. Interest will continue to accrue during any period of forbearance. The borrower must request forbearance in writing, providing documentation that supports the borrower's claim that he or she is financially unable to make payments. Forbearance is available for all Perkins Loans and National Direct Student Loans (NDSLs), regardless of when they were made.

Forbearance—34CFR 674.33(d)

When the school receives the borrower's written request and supporting documentation, the school must grant the borrower forbearance for a period of up to one year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of three years. A school may apply an authorized period of forbearance to begin retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so and if he or she provides adequate documentation to support the request.

Both loan principal and any interest that accrues must be included in the forbearance unless the borrower chooses to pay interest that accrues. The borrower and the school must agree in writing on the terms of forbearance. The forbearance must be in the form of a temporary cessation of payments unless the borrower chooses one of the alternative types of forbearance (as explained in the first paragraph above).

Criteria for granting forbearance

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all Student Financial Assistance (SFA) loans is equal to or greater than 20% of the borrower's total monthly gross income (defined on the next page). If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is

Evidence the borrower must submit

used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by three (because the payment covers three months) to determine the equivalent monthly payment amount. The school must require the borrower to submit at least the following documentation:

- ◊ evidence of the amount of the most recent total monthly gross income the borrower received and
- ◊ evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her SFA loans.

Definition of "total monthly gross income"

Total monthly gross income is the gross amount of income received by the borrower from employment (either full time or part time) and from other sources.

Other reasons for granting forbearance

A school also must grant forbearance if it determines the borrower should qualify due to poor health or other acceptable reasons or if the U.S. Department of Education authorizes a period of forbearance due to a national military mobilization or other national emergency. The Department strongly encourages a school to grant forbearance to a borrower who is serving in Americorps.

DEFERMENT

Definition of deferment

A borrower is entitled to have the repayment of a loan deferred under certain circumstances. A deferment is a period of time during which the borrower is not required to repay the loan principal. Interest will not accrue during any type of deferment except a hardship deferment. For loans made on or after July 1, 1993, **interest does not accrue** during any type of deferment.

Deferment and cancellation

If a borrower is teaching or engaged in other services that qualify him or her for both deferment and cancellation, the loan deferment is considered to run concurrently with any period for which loan cancellation is granted.

Applying for a deferment

A borrower must apply for a deferment in writing by using a deferment form obtained from the business or student loan office of the school that made the loan (or from the school's billing service, if it uses one). The form must be submitted to the school along with whatever documentation the school requires. The school establishes a deadline for submitting the form and documentation. (The Department does **not** approve or supply deferment forms.) The borrower must file a form at least once a year for as long as the deferment can be claimed. The borrower must immediately report any change in deferment status to the lending institution.

IN-SCHOOL DEFERMENT—COMMON TO ALL PROGRAM LOANS

Required enrollment status

A borrower may defer repayment of a Perkins Loan, NDSL, or National Defense Student Loan (Defense Loan) if he or she is enrolled at least half time in an eligible institution. Interest will not accrue during the deferment. To receive a deferment based on at least half-time enrollment, also called an in-school deferment, the student must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the United States approved by the Department for deferment purposes. However, it is not a requirement that the school participate in the Federal Perkins Loan Program. If a borrower is attending a school that ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

A regular student is one who is enrolled for the purpose of obtaining a degree or certificate. If the borrower is attending at least half time as a regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for 12 months.

DEFERMENT OF LOANS MADE ON OR AFTER JULY 1, 1993

For Perkins Loans and NDSLs made on or after July 1, 1993, a borrower may defer loan repayment, and interest does not accrue while he or she

In-school deferment

- ◊ is enrolled at least half time as a regular student at an eligible institution and is attending classes at that school as described above;[1]

- ◊ is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department;[2]

- ◊ is engaged in graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States;

Rehabilitation training

- ◊ is enrolled in a course of study that is part of an Department-approved rehabilitation training program for disabled individuals;

Unemployment or under-employment

- ◊ is seeking and is unable to find full-time employment;[3]

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[1] In-school deferments may no longer be granted to a borrower while serving in a medical internship or residency program, except for a program in dentistry.

[2] The borrower must provide certification that he or she has been accepted for or is engaged in full-time study in the school's graduate fellowship program.

[3] These deferments may not be granted in excess of three years.

Economic hardship

- ◊ is suffering an economic hardship[3] (discussed below); or
- ◊ is engaged in certain types of service that qualify the borrower for cancellation of the loan.[4]

Post-deferment grace period

A Perkins Loan or NDSL borrower is entitled to a 6-month grace period after each type of deferment (a "post-deferment" grace period). Neither the deferment nor the grace period is counted as part of the borrower's 10-year repayment period.

Economic hardship deferment 34CFR Section 674.34(e)

For Perkins Loans or NDSLs made **on or after** July 1, 1993, the hardship deferment has been replaced by the **economic hardship** deferment. A school may grant a deferment due to economic hardship for up to a total of three years. Unlike loans made before July 1, 1993, loans made after that date do not qualify for **unlimited** deferments due to hardship. Also unlike the former hardship deferment, the new economic hardship deferment allows a borrower to defer interest as well as principal.

An eligible borrower is entitled to an economic hardship deferment for periods of up to one year at a time, not to exceed three years cumulatively if the borrower provides the school with satisfactory documentation showing that he or she

1. has been granted an economic hardship deferment under either the William D. Ford Federal Direct Student Loan (Direct Loan) Program or the Federal Family Education Loan (FFEL) Program for the same period of time for which the Perkins Loan or NDSL deferment has been requested;

2. is receiving federal or state public assistance, such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, or state general public assistance;

3. is working full time and is earning a total monthly gross income that does not exceed the greater of

   a) the monthly earnings of an individual earning the federal minimum wage or

   b) an amount equal to 100% of the poverty line for a family of two as determined in accordance with section 673(2) of the Community Service Block Grant Act;

4. is not receiving total monthly gross income that is more than twice the amount in (a) or (b) above and that income minus an

[4] See Section 5, "Cancellation."

amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (a) or (b) above; or

5. is working full time and has a federal educational debt burden that equals or exceeds 20% of the borrower's total monthly gross income and the borrower's total monthly gross income minus such burden is less than 220% of the greater of

   a) the monthly earnings of an individual earning the federal minimum wage or

   b) an amount equal to 100% of the poverty line for a family of two as determined in accordance with section 673(2) of the Community Service Block Grant Act.

For information on the minimum wage, contact the Wage and Hour Division of the U.S. Department of Labor. The telephone number is (202) 219-7043.

The U.S. Department of Health and Human Services 1997 poverty line for a family of two is $13,270 for Alaska, $12,200 for Hawaii, and $10,610 for all other states. The poverty lines for 1998 will be released in March 1998.

Documentation for economic hardship

To support a borrower's eligibility for an initial economic hardship deferment based on the criteria in option 4 above, the school must collect at least the following documentation:

- ◊ evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income the borrower received from employment (either full-time or part-time) and from other sources and

- ◊ evidence showing the most recent monthly amount due on each of the borrower's federal postsecondary education loans, as determined by the method described below.

Determining monthly amount due on education loans

To determine the monthly amount due on federal postsecondary education loans, the school must count only the monthly amount that the borrower **would have owed** on each loan **if it had been scheduled to be repaid in 10 years** from the date the loan entered repayment; the school should disregard the actual repayment schedule or the actual monthly payment amount (if any) that the borrower would owe during the period for which the economic hardship deferment is requested.

To qualify for a **subsequent** period of deferment that begins less than one year after the end of the deferment described in option 3 or 4 above, the

school must require the borrower to submit a copy of his or her federal income tax return if the borrower filed a tax return within the eight months preceding the date the deferment is requested.

For purposes of qualifying under option 3 or 5 of the economic hardship deferment, a borrower is considered to be working full time if he or she is expected to be employed for at least three consecutive months for at least 30 hours per week.

Rehabilitation training program deferment

To qualify for a deferment for study in a rehabilitation training program, all of the following criteria must be met:

1. The borrower must provide the school with a certification from the rehabilitation agency that the borrower is either receiving or scheduled to receive training services designed to rehabilitate disabled individuals.

2. The borrower must provide the school with a certification from the rehabilitation agency that one of the following entities licenses, approves, certifies, or otherwise recognizes the rehabilitation program as providing rehabilitation training to disabled individuals:

   - a state agency with responsibility for vocational rehabilitation programs;
   - a state agency with responsibility for drug abuse treatment programs;
   - a state agency with responsibility for mental health services programs;
   - a state agency with responsibility for alcohol abuse treatment programs; or
   - the U.S. Department of Veterans Affairs.

3. The rehabilitation agency must certify that the rehabilitation program provides or will provide the borrower with rehabilitation services under a written plan that

   - is individualized to meet the borrower's needs;
   - specifies the date on which the services to the borrower are expected to end; and

- is structured in a way that requires the borrower's substantial commitment to his or her rehabilitation. The Department considers a substantial commitment to be one of time and effort that would normally prevent an individual from engaging in full-time employment either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

DEFERMENT OF PERKINS LOANS MADE BEFORE JULY 1, 1993

A borrower of a Perkins Loan made before July 1, 1993 may defer repayment if he or she is enrolled at least half time as a regular student in an eligible institution (as explained on page 6-37).

Three-year deferments

Such a borrower may also defer repayment for up to three years and interest will not accrue while he or she is

- ◊ a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- ◊ a member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces;
- ◊ an officer in the Commissioned Corps of the U.S. Public Health Service;
- ◊ on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps;
- ◊ a Peace Corps volunteer;
- ◊ a volunteer under Title I, Part A of the Domestic Volunteer Service Act of 1973 (ACTION programs);
- ◊ a full-time volunteer in service for a tax-exempt organization that the Department has determined is comparable to Peace Corps or ACTION service;[5] or
- ◊ temporarily totally disabled or unable to work because he or she must care for a **spouse or other dependent** who is so disabled.[5]

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[5] See the criteria on the next page.

Volunteer service comparable to Peace Corps

A borrower is considered to be providing service comparable to Peace Corps or ACTION service if he or she meets all of the following five criteria:

1. The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954.

2. The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.

3. The borrower does not receive compensation that exceeds the rate prescribed under Section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide the volunteer with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization.

4. The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund raising to support religious activities.

5. The borrower has agreed to serve on a full-time basis for a term of at least one year.

Temporary total disability

Temporarily totally disabled, with regard to the borrower, means the inability due to an injury or illness to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

Temporarily totally disabled, with regard to a disabled spouse or other dependent of a borrower, means requiring continuous nursing or other services from the borrower for a period of at least three months due to illness or injury.

An affidavit from a qualified physician[6] is required to prove disability. The definition of dependent for temporary total disability deferment purposes is the same as the definition used in the *Free Application for Federal Student Aid* (FAFSA) for a member of the independent applicant's household: A borrower's dependent is a child who receives more than half of his or her financial support from the borrower or another person who lives with the borrower and who receives more than half of his or her financial support from the borrower.

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[6] A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.

Internship deferment

A borrower whose Perkins Loan was made before July 1, 1993 and who is serving in a medical internship or residency program is not considered to be in school for deferment purposes and may not receive an in-school deferment on that Perkins Loan for the internship or residency program; however, the borrower is eligible for an **internship deferment** for up to two years.

While the borrower is serving an eligible internship, he or she may defer repayment for up to two years. Interest will not accrue during the internship deferment. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program; in addition, the internship must meet the criteria of *either* a *or* b below to be eligible:

a. The successful completion of the internship must be required by a state licensing agency as a prerequisite for certification of the individual for professional practice or service. For this type of eligible internship, the borrower must provide the school with the following certifications:

   - a statement from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite for certification for professional practice or service;
   - a statement from the organization where the borrower will be an intern certifying that attaining a bachelor's degree is required to be admitted in the program;
   - a statement from the organization where the borrower will be an intern indicating that the borrower has been accepted into its internship program; and
   - certification of the dates when the borrower is expected to begin and complete the program.

b. The internship or residency program must lead to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. For this type of eligible internship, the borrower must provide the school with a statement from an authorized official of the internship program certifying that

   - a individual must have a bachelor's degree to be admitted in the program;

- the borrower has been accepted into the program; and
- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

A borrower of a Perkins Loan made before July 1, 1993 may also defer repayment (and interest will not accrue) during a period of

"Working mother" deferment

◊ up to one year if the borrower is a mother of a preschool-age child, provided the mother is going to work (or going back to work) at a salary that is no more than $1.00 above the minimum hourly wage or

"Parental leave" deferment

◊ up to 6 months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child.[7]

Hardship deferment

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). Interest will continue to accrue during the deferment.

Post-deferment grace period

A borrower is entitled to a 6-month grace period after each of the deferments that apply to Perkins Loans (a post-deferment grace period) except after a hardship deferment. Neither the deferment nor the post-deferment grace period is counted as part of the 10-year repayment period.

DEFERMENT OF NDSLS MADE BETWEEN OCTOBER 1, 1980 AND JULY 1, 1993

At least half-time attendance

A borrower of an NDSL made on or after October 1, 1980 but before July 1, 1993 may defer repayment if he or she is enrolled at least half time as a regular student in an eligible institution (as explained on page 6-37).

Three-year deferments

A borrower may defer repayment for up to three years (and interest will not accrue) while the borrower is

◊ a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;

◊ a member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces;

[7] This deferment is called a parental leave deferment. The borrower must be unemployed and not attending school and must apply for deferment within six months of leaving school or dropping below half-time status.

- ◊ an officer in the Commissioned Corps of the U.S. Public Health Service;
- ◊ a Peace Corps volunteer;
- ◊ a volunteer under Title I, Part A of the Domestic Volunteer Service Act of 1973 (ACTION programs);
- ◊ a full-time volunteer in service for a tax-exempt organization the Department has determined to be comparable to Peace Corps or ACTION;[8] or
- ◊ temporarily totally disabled or unable to work because he or she must care for a **spouse** who is so disabled.[9]

Two-year deferments

A borrower of an NDSL made on or after October 1, 1980 and before July 1, 1993 may defer repayment for up to two years (and interest will not accrue) while the borrower is serving in an eligible internship. An eligible internship is one

- ◊ that requires the borrower to hold at least a bachelor's degree before beginning the internship program and
- ◊ that the state licensing agency requires the borrower to complete as a prerequisite for his or her certification for professional practice or service.

To qualify for an internship deferment, the borrower must provide the school with the following certifications:

- ◊ a statement from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite of certifying for professional practice or service;
- ◊ a statement from the organization where the borrower will be an intern certifying that attaining a bachelor's degree is required to be admitted in the program;
- ◊ a statement from the organization where the borrower will be an intern indicating that the borrower has been accepted into its internship program; and
- ◊ certification of the dates when the borrower is expected to begin and complete the program.

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[8] See the volunteer service criteria on page 6-42.

[9] See the discussion of temporary total disability on page 6-42. A physician's statement is required.

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). Interest will continue to accrue during the deferment.

Deferment provisions for loans made before 10/1/80

For all NDSLs made on or after October 1, 1980 and before July 1, 1993, a borrower is also entitled to a 6-month post-deferment grace period after each of the deferments that apply to those loans except after a hardship deferment. Neither the deferment nor the post-deferment grace period is counted as part of the 10-year repayment period. For information on deferment provisions for loans made before October 1, 1980, see the *1994-95 Federal Student Financial Aid Handbook* or 34 CFR 674.37.

DEFERMENT VS. POSTPONEMENT FOR SERVICE THAT WILL QUALIFY FOR LOAN CANCELLATION

For Perkins Loans and NDSLs made on or after July 1, 1993, deferment of repayment is applicable during periods while the borrower is performing a service that will subsequently qualify him or her for cancellation of all or a portion of the loan. A school may grant a deferment of repayment for up to 12 months at a time. Interest does not accrue during this period of deferment. A borrower is entitled to deferment and post-deferment grace periods; therefore, regardless of the length of time that the eligible service is performed, repayment is deferred during that period of service and does not resume until six months after the cessation of service.

Because a borrower of a loan made on or after July 1, 1993 is entitled to a deferment while performing a service that will subsequently qualify him or her for cancellation of all or a portion of the loan, a school that is exercising the minimum monthly payment provision listed in the promissory note must cease doing so and grant a deferment to cover any period of qualifying service. The amount to be deferred and subsequently canceled must be calculated using the 10-year repayment period.

A borrower of a Perkins Loan, NDSL, or Defense Loan made before July 1, 1993 may **not** receive a deferment during a period while he or she is performing a service that will subsequently qualify him or her for cancellation of all or a portion of the loan; rather, a school must grant **postponement** of loan repayment for a 12-month period if the borrower

- ◊ notifies the school in writing that he or she is performing a qualifying service and
- ◊ submits a statement specifying that he or she is so employed.[10]

[10] The statement must be signed by a responsible official in the military, agency, or school employing the borrower, and the statement must describe the borrower's job, list the period of employment, and state whether the job is full- or part-time.

Postponement differs from deferment in the following ways:

- ◊ the borrower is not entitled to a postponement;
- ◊ the borrower does not receive a grace period following postponement; and
- ◊ interest continues to accrue during postponement.

Because postponement is not an entitlement, a borrower who does not complete the period required to receive cancellation will be required to make any payments that had been postponed during the partial period of service. These payments become due and payable immediately upon the cessation of service.

A school that is exercising the minimum monthly payment provisions listed in a borrower's promissory note can still grant postponement to cover a period of qualifying service. If the school was originally exercising the minimum payment option, it must cease doing so if it grants postponement. The amount to be postponed and subsequently canceled must be calculated using the 10-year repayment period.

If a borrower has received more than one type of loan but is performing a service that qualifies only one loan for cancellation, the school may defer loan payments (or postpone loan payments for loans made prior to July 1, 1993) **only** on the loan that qualifies for the cancellation. The amount due on the loan that is not eligible for cancellation is the amount the borrower would normally pay.

THE CONCURRENT DEFERMENT PERIOD

If a borrower is teaching or engaged in other services that qualify him or her for both deferment and cancellation, the loan deferment is considered to run concurrently with any period for which loan cancellation is granted.

DEFERMENT AND DEFAULT

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has accelerated[11] the loan. The school would have to de-accelerate the loan before granting the deferment. The policy to permit deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

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[11] Acceleration is one of the penalties a school may impose on a defaulted loan. A loan that has been accelerated becomes due and payable immediately in one lump sum.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus "curing" the default.

The borrower must file for deferment on time and provide satisfactory documentation that he or she qualifies for the deferment. "On time" means by a deadline that the school establishes. **A school is not required to grant deferments on loans in default**; however, if a school does so, it is expected to calculate past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

DEFERMENT VS. IN-SCHOOL ENROLLMENT STATUS

A borrower may neglect to notify a school that he or she has enrolled at least half time at another school before the initial grace period expires. Because the school would not have this information, the school would assume that the student's repayment period had started and might demand payment from the borrower. In such a case, a borrower often requests a deferment rather than a continuation of his or her in-school status. Because the borrower reenrolled at least half time before the initial grace period expired, repayment had not yet started, and a deferment would not be appropriate.

The borrower may submit proof at any time—even after a loan has been accelerated—that he or she reenrolled at least half time before the initial grace period expired and that the repayment period should have begun later than the date originally calculated. **The school must recalculate that date if it receives this proof**. The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually should have begun.

Note that the borrower remains responsible for payments that would have been due under the recalculated repayment period and that the school is not obligated to grant a deferment for any payments past due under that period.

Section 5 Cancellation

A borrower may have all or part of his or her loan (including interest) canceled for engaging in public service such as teaching, service in the education component of a Head Start program, service in the Peace Corps or ACTION, or service in the military. Cancellation is also granted in case of the borrower's death, total and permanent disability, or—in some cases—bankruptcy. Definitions that apply to cancellation provisions are discussed on pages 6-62 through 6-64.

The promissory notes in Dear Colleague Letter CB-93-9, dated July 1993, incorporate changes in loan cancellation provisions required by The Higher Education Amendments of 1992 for Federal Perkins Loans and National Direct Student Loans (NDSLs) made on or after July 23, 1992. The U.S. Department of Education issued reformatted promissory notes in Dear Colleague Letter CB-96-8, dated May 1996.

Dear Colleague Letters CB-93-9, July 1993 and CB-96-8, May 1996

U.S. ARMY LOAN REPAYMENT PROGRAM

It is useful to know that the U.S. Army offers a loan **repayment** program as an enlistment incentive. If the borrower of a Perkins Loan or NDSL (or Stafford Loan) serves as an enlisted person in the U.S. Army, in the Army Reserves, or in the Army National Guard, the U.S. Department of Defense will repay a portion of the loan. For more information, the student should contact his or her local military recruiting office. This is a recruitment program, not a cancellation, and does not pertain to an individual's prior service.

COMMON CANCELLATION PROCEDURES

Although cancellation provisions vary, depending on whether the borrower has a Perkins Loan or NDSL, the following procedures apply to any loan:

- ◊ The borrower must apply for cancellation of his or her loan by obtaining the appropriate cancellation form from the business

or student loan office of the school that made the loan (or from the school's billing service if it uses one). The Department does not approve or supply cancellation forms. The form must be submitted to the school by the deadline the school establishes. The borrower must provide any documentation the school requests to show that he or she qualifies for cancellation. For information on documentation, see the appropriate cancellation category in this section.

◊ It is the school's responsibility to determine, based on the borrower's documentation, whether the borrower is entitled to have any portion of his or her loans canceled. This responsibility cannot be delegated.

◊ No portion of any loan may be canceled for services the borrower performed either before the date the loan was disbursed or during the enrollment period covered by the loan.

◊ Regardless of the repayment status of a loan, the school must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability.

◊ Periods of loan deferment for public service that is also qualifying service for cancellation benefits are considered to run concurrently with any period for which a loan cancellation for such public service is granted.

◊ Defaulted loan amounts are not eligible for cancellation unless the only reason for the default was the borrower's failure to file a cancellation request on a timely basis. However, if the school has accelerated the account by the time the borrower files the necessary cancellation request forms, only eligible service performed **prior** to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed **after** the date of acceleration.

◊ No repayment made by a borrower during a period for which the borrower qualified for a cancellation may be refunded unless the borrower made the payment because of the school's error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

◊ No borrower who has received an education benefit under Subtitle D of Title I of the National and Community Service Act of 1990 may receive a cancellation of a Perkins Loan or NDSL.

CANCELLATION PROVISIONS COMMON TO ALL LOANS MADE AFTER JULY 1, 1987

The borrower of a Perkins Loan or NDSL made after July 1, 1987 is eligible to have up to 100% of the loan canceled for qualifying service as

Teaching in low-income schools

- a full-time teacher in a public or nonprofit elementary or secondary school serving students from **low-income**[1] families or

Teaching handicapped children

- a full-time teacher of **handicapped students** in a public or nonprofit elementary or secondary school. The majority of the students the borrower teaches must be handicapped children.[2]

The cancellation rate per completed academic year of teaching is

Cancellation rates

- 15% of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

Service in Head Start

A Perkins Loan or NDSL borrower who received the loan on or after July 1, 1987 is entitled to cancellation of up to 100% of the loan for qualifying service as a full-time staff member in the educational part of a preschool program carried out under the Head Start Act. The cancellation rate is 15% of the original principal loan amount—plus the interest that accrued during the year—for each complete school year.

LAW ENFORCEMENT CANCELLATION PROVISION—SPECIFIC TO LOANS MADE ON OR AFTER NOVEMBER 29, 1990

A borrower is entitled to cancellation of up to 100% of a Perkins Loan or NDSL made on or after November 29, 1990 for full-time service as a qualifying law enforcement or corrections officer.

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[1] See the definition of this term at the end of this section. An official Directory of designated low-income schools is published annually by the Department.

[2] For loans made on or after July 23, 1992, this provision has been replaced by the "special education teacher" cancellation provision. A teacher of handicapped students/special education teacher is not required to teach in a low-income school to be eligible for cancellation.

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The rates of cancellation for each completed year of service are the same as those for teachers:

- ◊ 15% of the original principal—plus any interest that may have accrued during the year—for each of the first and second years;
- ◊ 20% of the original principal—plus any interest that may have accrued during the year—for each of the third and fourth years; and
- ◊ 30% of the original principal—plus any interest that may have accrued during the year—for the fifth year.

CANCELLATION PROVISIONS SPECIFIC TO FEDERAL PERKINS LOANS AND NDSLS MADE ON OR AFTER JULY 23, 1992

In addition to being eligible for the previously mentioned cancellation provisions, a borrower of a Perkins Loan or NDSL made on or after July 23, 1992 is eligible to have up to 100% of the loan canceled for teaching or qualifying employment as

Special education teacher

- ◊ a full-time special-education teacher, including teachers of **infants, toddlers, children, or youth with disabilities**[3] in a public or other nonprofit elementary or secondary school system;

Teaching math, science, languages

- ◊ a full-time teacher in a public or other nonprofit elementary or secondary school in the fields of mathematics, science, foreign languages, or bilingual education or in any other **field of expertise**[3] that is determined by a state education agency to have a shortage of qualified teachers in that state;

Health care

- ◊ a full-time **nurse**[3] or **medical technician**[3] providing health care services;

Early intervention

- ◊ a full-time **qualified professional provider of early intervention services**[3] in a public or other nonprofit program under public supervision; or

Employee of child or family service agency

- ◊ a full-time employee of an eligible public or private nonprofit child or family service agency who is providing or supervising the provision of services to both **high-risk children**[3] who are from **low-income communities**[3] and the families of such children.

[3] See the definitions of these terms at the end of this section.

For these cancellation provisions, a borrower's loan is canceled at the rates shown below for each completed year of full-time employment or services or, in the case of teachers, for each full academic year of full-time teaching:

- 15% of the original principal loan amount—plus any interest that may have accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus any interest that may have accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

MILITARY SERVICE CANCELLATION—APPLIES TO ALL LOANS MADE ON OR AFTER JULY 1, 1972

A borrower is also entitled to cancellation of up to **50%** of a Perkins Loan or NDSL for service in the U.S. Armed Forces in an **area of hostilities** or an **area of imminent danger** that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. The cancellation rate for every complete year of qualifying service is 12½% of the original principal loan amount plus any interest that accrued during the year.

CANCELLATION PROVISIONS SPECIFIC TO PERKINS LOANS

Service in Peace Corps or ACTION programs

For **Perkins Loans only**, a borrower is entitled to cancel up to **70%** of the loan for service as a Peace Corps volunteer or volunteer under the Domestic Volunteer Service Act (ACTION program); an authorized official of the Peace Corps or ACTION program must sign the borrower's cancellation form to certify the borrower's service. The cancellation rate per year of service is

- 15% of the original principal loan amount—plus any interest that accrued during the year—for each of the first and second 12-month periods of service and
- 20% of the original principal loan amount—plus any interest that accrued during the year—for each of the third and fourth 12-month periods of service.

DEATH, TOTAL AND PERMANENT DISABILITY, AND BANKRUPTCY CANCELLATION PROVISIONS—APPLICABLE TO ALL LOANS

Regardless of the repayment status of a loan, the school that was the lender must cancel the unpaid balance of the loan, including interest, upon receipt of proof of the borrower's death or upon the school's approval of the cancellation request of a borrower who became permanently and totally disabled after receiving the loan. A determination of permanent and total disability must be based on medical evidence certified by a physician (a medical doctor or doctor of osteopathy, but not a doctor of naturopathic medicine). If a loan is canceled based on the borrower's permanent and total disability, the borrower cannot subsequently be required to repay the loan, even if the borrower's medical condition improves to the point that he or she is no longer disabled, unless the school can prove that the claim of disability was fraudulent.

Definition of teacher

In some cases, a borrower's Perkins Loan or NDSL may be discharged in bankruptcy. For more information, see "Criteria for Receiving a Bankruptcy Cancellation" on page 6-61.

CRITERIA FOR TEACHER CANCELLATION

Eligibility for teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be teaching full time in a **public or other nonprofit elementary or secondary school system** and must be **directly employed** by the school system. There is no provision for canceling Perkins Loans or NDSLs for teaching in postsecondary schools.

A teacher is a person who provides to students

- direct classroom teaching;
- classroom-type teaching in a non-classroom setting; or
- educational services directly related to classroom teaching.

Two examples of qualifying individuals for the third category are school librarians and school guidance counselors.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

A person who provides one of the following services does not qualify as a teacher unless 1) that person is licensed, certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services and 2) the services provided by the individual are part of the educational curriculum for handicapped children:

- ◊ speech and language pathology and audiology;
- ◊ physical therapy;
- ◊ occupational therapy;
- ◊ psychological and counseling services; or
- ◊ recreational therapy.

For a borrower to be considered as teaching in a field of expertise, the majority of classes taught must be in the borrower's field of expertise. A borrower who is teaching in science, mathematics, foreign language, or bilingual education qualifies for cancellation even if the state has not designated the subject area in which he or she is teaching as a shortage area.

For a borrower to be considered as a full-time professional provider of early intervention services, the borrower must be employed in a public or nonprofit program under public supervision.

If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

Teacher who is not certified or licensed

It is not necessary for a teacher to be certified or licensed to receive cancellation benefits. However, the employing institution must consider the borrower to be a full-time professional for the purposes of salary, tenure, retirement benefits, and so on. In other words, to qualify, the borrower should accrue the same benefits as teachers who are licensed and/or certified.

Teacher's aide

Under certain conditions, a teacher's aide may be considered eligible for teacher cancellation. The teacher's aide must meet the definition of a "full-time teacher." He or she must have a bachelor's degree and be a professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

Volunteer teachers

Volunteer teachers are not considered to be professionally employed on a full-time basis and, therefore, are not eligible for teacher cancellation benefits.

Private academy

A borrower may receive teacher cancellation for services performed in a private academy if the private academy has established its nonprofit status with the Internal Revenue Service (IRS) and if the academy is providing elementary and/or secondary education according to state law.

School accreditation

A private elementary and/or secondary school does not necessarily need to be accredited for a borrower teaching there to qualify for teacher cancellation. However, the school must have established its nonprofit status with the IRS and must be licensed by the state (that is, must be providing elementary and/or secondary education according to state law).

A borrower may receive National Defense Student Loan (Defense Loan) cancellation for teaching in a proprietary institution if that institution has established its nonprofit status with the IRS.

Preschool/ prekindergarten programs

A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program only if the state considers the program to be a part of its elementary education program. A low-income-school-directory designation that includes prekindergarten or kindergarten does not suffice for a state determination of program eligibility. The school must check with the state superintendent of public instruction to determine whether these programs are part of the **state** elementary education program.

Teaching in Job Corps projects

A borrower cannot receive teacher cancellation for teaching service performed in a Job Corps Project unless the teaching is considered to be conducted in an elementary or secondary school or school system.

The cancellation form the borrower files must be signed by an official in the school system or agency to certify the borrower's service.

The borrower must teach full time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day in order to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher. An "academic year or its equivalent" for teacher cancellation purposes is defined as one complete school year or two half years that are

- ◊ from different school years, excluding summer sessions,
- ◊ complete,
- ◊ consecutive, and
- ◊ generally fall within a 12-month period.

Incomplete academic year

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower's employer must consider the borrower to have fulfilled his or her contract for the academic year.

Cancellation for a combination of teaching

A borrower who is simultaneously teaching part time in two or more schools may request a cancellation based on teaching full time if he or she can obtain appropriate certification that he or she is teaching full time. The postsecondary school that made the loan may grant the cancellation if an official at one of the schools where the borrower taught certifies that the borrower taught full time for a full academic year. For example

- ◊ under a consortium agreement, a borrower may be employed by the consortium and teach at member schools;[4]
- ◊ two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement;[5] or
- ◊ a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily be determined that the teaching was full time.

A cancellation based on teaching in a school serving students from **low-income** families may be granted only if the borrower taught in an eligible school that is listed in the *Directory of Designated Low-Income Schools for Teacher Cancellation Benefits*. The Department compiles and publishes this directory of low-income schools annually after consulting with each state's educational agency. The Department sends a copy of the directory to each school that participates in the Perkins Loan Program. The Department considers a school to be a low-income school only if 1) it is in a school district that qualifies for federal funding based on the large number of low-income families in the district and 2) more than 30% of the school's enrollment is made up of children from low-income families. The official 1997-98 Directory was issued to schools in October 1997.

[4] The consortium provides the certification of full-time teaching.

[5] The employing school certifies the borrower's full-time teaching status.

Cancellation if school is removed from list

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and remain eligible to receive a cancellation for service in that school. If a list is not available before May 1 of any year, the Department may use the previous year's list to make the service determination for that year. Information about specific schools listed in the directory is available from

Ms. Sherraine Green
Campus-Based Programs Systems Division
Program Systems Service
Office of Postsecondary Education
U.S. Department of Education
600 Independence Avenue, SW, (ROB-3, Room 4051)
Washington, DC 20202-5447

Telephone: 202/708-5774

Teaching at BIA schools

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Perkins Loans and NDSLs. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.

For Perkins Loans or NDSLs made **on or after** July 23, 1992, a borrower may receive a cancellation as a full-time special education teacher (including teachers of infants, toddlers, children, or youth with disabilities) in a public or other nonprofit elementary or secondary school system.

For Perkins Loans or NDSLs made **before** July 23, 1992, a borrower may receive a cancellation for full-time teaching of handicapped children for a full academic year or its equivalent. The borrower qualifies for this cancellation only if a majority of the students whom the borrower teaches are handicapped children. Handicapped children include those who are mentally retarded, hard of hearing, deaf, speech and language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, have traumatic brain injury or specific learning disabilities, or are otherwise health-impaired children who require special education and related services because of their disabilities.

The **only** cancellation provisions for service in elementary or secondary schools are:

- ◊ teaching in schools serving low-income families;
- ◊ teaching mathematics, science, foreign languages, or bilingual education;

- ◊ teaching in a field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state;
- ◊ teaching as a special education teacher; and
- ◊ providing early intervention services.

CRITERIA BORROWER MUST MEET FOR MILITARY CANCELLATION

To qualify for military cancellation, the borrower must be serving a period of full-time active duty in the armed forces (that is, the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard). A member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces is also eligible to receive a military deferment. For a Perkins Loan or NDSL cancellation, the service in the armed forces must be in an **area of hostilities** or an **area of imminent danger** that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. For Defense Loan cancellation, the service does not have to be in an area of hostilities or area of imminent danger. The borrower's Commanding Officer must certify the borrower's service dates. The cancellation rate of 12 1/2% of the original principal loan amount is for each **complete** year of service; service for less than a complete year or any fraction of a year beyond a complete year does not qualify.

CRITERIA FOR HEAD START CANCELLATION

A full-time staff member is someone who is regularly employed in a full-time professional capacity to carry out the educational part of a Head Start program. The program must operate for a full academic year, or its equivalent, and the borrower's salary may not be more than that of a comparable employee working in the local educational agency. An authorized official of the Head Start Program must sign the borrower's cancellation form to certify the borrower's service.

CRITERIA FOR EMPLOYEE OF A CHILD OR FAMILY SERVICES AGENCY

To receive loan cancellation for being employed at a child or family services agency, a borrower must be providing services **only** to high-risk children who are from low-income communities. The borrower may also be providing services to adults, but these adults must be members of the families of the children for whom services are provided. The services provided to adults must be secondary to the services provided to the high-risk children. The Department has determined that an elementary or secondary school system or a hospital is not an eligible employing agency.

CRITERIA FOR LAW ENFORCEMENT OR CORRECTIONS OFFICER CANCELLATION

To establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that 1) the borrower's employing agency is eligible and that 2) the borrower's position is essential to the agency's primary mission.

1. A local, state, or federal agency is an eligible employing agency if it is publicly funded and its activities pertain to crime prevention, control, or reduction or to the enforcement of the criminal law. Such activities include, but are not limited to, police efforts to prevent, control, or reduce crime or to apprehend criminals; activities of courts and related agencies having criminal jurisdiction; activities of corrections, probation, or parole authorities; and problems relating to the prevention, control, or reduction of juvenile delinquency or narcotic addiction.

   Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible.

2. For the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary mission. The agency must be able to document the employee's functions.

Individuals whose official responsibilities are supportive, such as those that involve typing, filing, accounting, office procedures, purchasing, stock control, food service, transportation, or building, equipment or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation regardless of where these functions are performed. Also, a borrower employed as a public defender does not qualify for cancellation benefits under this provision.

CRITERIA FOR DISABILITY CANCELLATION

Any Perkins Loan, NDSL, or Defense Loan will be canceled if the borrower dies or becomes permanently and totally disabled after receiving the loan. Permanent and total disability is the inability to work and earn money or to attend school because of an impairment that is expected to continue indefinitely or to result in death.

Even a 95% disability does not qualify the borrower for disability cancellation. Receiving Social Security disability benefits does not automatically qualify a borrower for permanent and total disability cancellation.

If a borrower becomes permanently and totally disabled, the school must decide whether to cancel the loan based on medical evidence (certified by a physician) that the borrower or his or her representative must furnish. This evidence must include statements from all physicians, hospitals, or agencies concerned with the case and should include certification that the criteria for permanent and total disability have been met. If a loan is canceled based on the borrower's permanent and total disability, the borrower cannot subsequently be required to repay the loan, even if the borrower's medical condition improves to the point that he or she is no longer disabled, unless the school can prove that the claim of disability was fraudulent. The Department does not approve or supply cancellation forms. In the case of a borrower's death, the school must receive a death certificate or other proof as required under state law.

CRITERIA FOR RECEIVING A BANKRUPTCY CANCELLATION

A Perkins Loan, NDSL, or Defense Loan will be written off for bankruptcy if the school receives an official notice of discharge from a bankruptcy court unless the school is required to oppose the discharge. For more information, see "Bankruptcy" in Section 9 of this chapter. Note that a borrower is no longer required to reaffirm a loan discharged in bankruptcy before he or she is eligible to apply for additional student aid including loans. This is a provision of the Bankruptcy Amendments Act of 1994, effective October 22, 1994.

REIMBURSING AMOUNTS CANCELED

For Perkins Loans and NDSLs, the Department will reimburse each school every award year for the principal and interest canceled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, and bankruptcy. The school must deposit in its fund the amount reimbursed. Not that for loans made on or after July 1, 1993, interest no longer accrues during the period that a borrower is performing service to qualify for cancellation benefits.

For Perkins Loans or NDSLs made **on or after** July 23, 1992, new cancellation provisions include several new terms that have not been defined previously in the regulations. Definitions of these terms are as follows:

Children and youth with disabilities. Children and youth from ages 3 through 21, inclusive, who require special education and related services because they have disabilities as defined in section 602(a)(1) of the Individuals with Disabilities Education Act;

Section 602(a)(1) defines "handicapped children" as children who are mentally retarded, hard of hearing, deaf, speech or language impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, or other health impaired children or children with specific learning disabilities who by reason thereof require special education and related services.

Early intervention services. Those services defined in section 672(2) of the Individuals with Disabilities Education Act that are provided to infants and toddlers with disabilities;

High-risk children. Individuals under the age of 21 who are low-income and at risk of abuse or neglect, have been abused or neglected, have serious emotional, mental, or behavioral disturbances, reside in placements outside their homes, or are involved in the juvenile justice system;

Infants and toddlers with disabilities. Infants and toddlers from birth to age two, inclusive, who need early intervention services for specified reasons, as defined in section 672(1) of the Individuals with Disabilities Education Act;

Section 672(1) of the Act defines infants and toddlers with disabilities as those who

- ◊ have a diagnosed physical or mental condition which has a high probability of resulting in developmental delay or
- ◊ are experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures in one or more of the following areas: cognitive development, physical development, language and speech development, psychosocial development, or self-help skills.

The term **infants and toddlers with disabilities** may also include, at a state's discretion, individuals from birth to age two, inclusive, who are at risk of having substantial developmental delays if early intervention services are not provided;

Low-income communities. Communities in which there is a high concentration of children eligible to be counted under Title I of the Elementary and Secondary Education Act of 1965, as amended;

Medical Technician. An allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system;

Nurse. A licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services;

Qualified professional provider of early intervention services. A provider of services, as defined in section 672(2) of the Individuals with Disabilities Education Act;

Section 672(2) of that Act defines developmental services as those services that

- ◊ are provided under public supervision;
- ◊ are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
- ◊ are designed to meet a handicapped infants's or toddler's developmental needs in any one or more of the following areas:
  - physical development;
  - cognitive development;
  - language and speech development;
  - psychosocial development; or
  - self-help skills;

◊ meet the standards of the state, including the requirements of this part;

◊ include:

- family training, counseling, and home visits;
- special instruction;
- speech pathology and audiology;
- occupational therapy;
- physical therapy;
- psychological services;
- case management services;
- medical services only for diagnostic or evaluation purposes;
- early identification, screening, and assessment services; and
- health services necessary to enable the infant or toddler to benefit from the other early intervention services;

◊ are provided by qualified personnel, including

- special educators;
- speech and language pathologists and audiologists;
- occupational therapists;
- physical therapists;
- psychologists;
- social workers;
- nurses; and
- nutritionists; and

◊ are provided in conformity with an individualized family service plan adopted in accordance with Section 677 of the Individuals with Disabilities Education Act.

Teaching in a field of expertise. The majority of classes taught are in the borrower's field of expertise.

Section 6 Due Diligence—Billing & Address Searches

Due diligence is the steps schools must take to collect Federal Perkins Loans and National Direct Student Loans (NDSLs). These steps include, but are not limited to, billing the borrower, sending overdue notices when necessary, and conducting address searches if the borrower cannot be located. If billing procedures fail to get the borrower into repayment, schools must proceed to the second—and more intensive—stage of collection. This stage may include hiring a collection firm. In many cases, schools may have to litigate.

Due diligence comprises all these procedures, but it can also be as basic as keeping the borrower informed of all program changes that affect his or her rights and responsibilities and responding promptly to the borrower's inquiries.

Keep borrower information current

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar's offices, and others, as necessary—must provide the information they have available about the borrower to those offices responsible for billing and collecting loans to assist them in determining the following information about the borrower:

- ◊ enrollment status;
- ◊ expected graduation or termination date;
- ◊ the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- ◊ current name, address, telephone number, Social Security Number, and driver's license number (if any).

EXIT INTERVIEW

Contact with the borrower becomes even more important just before he or she leaves school, when the school must hold an exit interview to explain the borrower's responsibility for repaying the loan and to state when the

first payment will be due and whether payments are to be made monthly, bimonthly, or quarterly. If individual interviews are not possible, group interviews are acceptable. The school must document its exit interviews.

School must provide certain information

During the interview, a borrower must be informed of the terms of the loan, the amount of the outstanding balance, and his or her obligation to repay according to the repayment schedule. The school must also make the borrower aware of the consequences of default, including the possibility that his or her account may be referred to a collection firm, that the default will be reported to a national credit bureau, and that legal action may be taken to collect the amount owed.

Borrower rights and responsibilities

A borrower must also be told his or her rights and responsibilities including

- his or her responsibility to inform the school immediately of any change in name, address, telephone number, Social Security Number, or driver's licence number;
- his or her rights to forbearance, deferment, cancellation, or postponement of repayment and the procedures for filing for those benefits;[1] and
- his or her responsibility to contact the school before the due date of any payment he or she cannot make.

Additional information school must provide to borrower

The school must provide the following additional information during the exit interview by including it either in the borrower's promissory note or in some other written statement the school gives the borrower. A school that is unaware that a borrower has left school must attempt to provide the required information to the borrower in writing upon learning that the borrower has left:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent where communications should be sent;
- the name and address of the party where payments should be sent;
- the estimated amount the borrower owes on the date the repayment period is scheduled to begin and the amount of the total debt (principal and interest);

[1] See Sections 4 and 5 of this chapter for more information

- ◊ the interest rate and the projected total interest charges the borrower will pay;
- ◊ a discussion of the repayment schedule including the date the first installment is due, and the number, amount, and frequency of required payments;
- ◊ any special options for loan consolidation or other refinancing;
- ◊ a statement that the borrower may prepay all or part of the loan without penalty;
- ◊ a discussion of any fees that will be charged the borrower for not making payments on time;
- ◊ a description of any charges associated with default, such as liability for loan collection costs reasonably incurred by the school or the Department; and
- ◊ information about the borrower's rights to forbearance, deferment, cancellation or postponement of repayment and the procedures for filing for those benefits.

A school is no longer required to give borrowers information about the average indebtedness of students with Perkins Loans at that school.

Collecting information during the exit interview

The school must require the borrower to provide the following information during the exit interview, which the school must keep in its records:

- ◊ the borrower's expected permanent address after leaving school (regardless of the reason for leaving);
- ◊ the name and address of the borrower's expected employer after leaving school;
- ◊ the borrower's driver's license number;
- ◊ the address of the borrower's next of kin; and
- ◊ any corrections in the school's records relating to the borrower's name, address, Social Security Number, personal references, and driver's license number.

At the time of the exit interview, the borrower must sign the repayment schedule, and the school must give the borrower copies of the signed schedule and the signed promissory note. As previously noted, the school

must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid or until the originals are needed to enforce collection of the loan. If the originals are released for enforcement purposes, the school must keep certified true copies of the documents released.

Mailing exit interview materials

If the school discovers that a borrower has left without having had an exit interview, the school must either contact the borrower and personally give him or her the information listed on the previous pages or mail this information. The school must also provide the borrower a copy of the signed promissory note and two copies of the repayment schedule, one of which the borrower must sign and return to the school.

CONTACT DURING GRACE PERIODS

Three contacts in nine-month grace period

Two contacts in six-month grace period

The school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin or resume. For a loan with a nine-month initial grace period, the school must contact the borrower three times during the grace period. For a loan with a six-month initial grace period, the school must contact the borrower twice during that period. Most loans also have **post-deferment** grace periods of six months. For such a loan, the school must also contact the borrower twice during any post-deferment grace period. The chart below shows the length of initial and post-deferment grace periods for NDSLs and Perkins Loans.

GRACE PERIODS
(Borrowers Attending at Least Half Time)

Type of Grace Period	Federal Perkins Loans	NDSLs made on or after 10/1/80	NDSLs made before 10/1/80
Initial	9 months	6 months	9 months
Post-Deferment	6 months	6 months	None

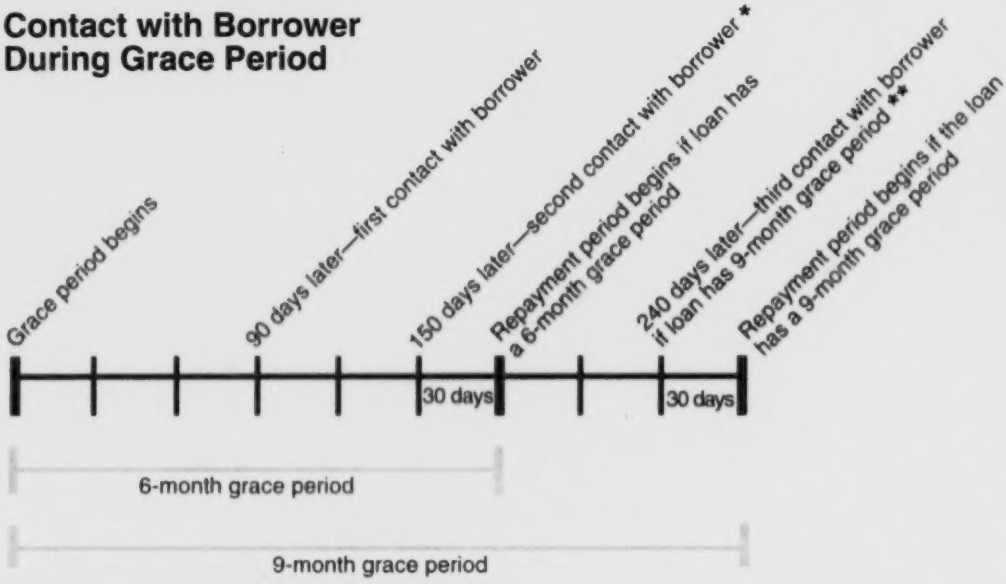
The **first contact** must be **90 days** after any grace period (initial or post-deferment) begins. The school must remind the borrower of the responsibility to repay the loan and must send the borrower information about the total amount to be repaid (or remaining to be paid, if a payment has been made in the past). This information must include the amount of principal and interest over the remaining life of the loan and the due date and amount of the first payment (or next payment, if a payment has been made previously).

The **second contact** must be 150 **days** after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. The second contact is timed to coincide with

the first billing notice for a loan with a six-month grace period (30 days before the first payment is due). These two notices may be combined.

For a borrower with a **nine-month** initial grace period, the school must make a **third contact 240 days** after the grace period begins to remind the borrower of the date and amount of the first payment. Like the second contact for a loan with a six-month grace period, this 240-day contact is timed to coincide with the first billing notice. Again, the school may combine the two notices. (Refer to the chart below.)

Contact with Borrower During Grace Period


Grace period begins
90 days later—first contact with borrower
150 days later—second contact with borrower *
Repayment period begins if loan has a 6-month grace period
240 days later—third contact with borrower **
Repayment period begins if the loan has a 9-month grace period
30 days
30 days
6-month grace period
9-month grace period

* 30-day billing notice must be sent to borrower at the same time if loan has 6-month grace period.

** 30-day billing notice must be sent to borrower at the same time if loan has 9-month grace period.

BILLING PROCEDURES

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due. If the school does not use a coupon system, it must, at least **30 days** before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of

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account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least **15 days** before the due date of the payment.[2]

First overdue notice

If a payment is overdue and the school has not received a request for forbearance, deferment, postponement, or cancellation, the school must send the borrower an **overdue notice** within **15 days** after the due date.

Late charge required

For loans made for periods of enrollment beginning on or after January 1, 1986, schools are required to impose a late charge when the borrower's payment becomes overdue.[3] The charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20% of the installment payment most recently due.

The school must also impose a late charge if the borrower's payment is overdue and the borrower has not filed a complete request for forbearance, deferment, cancellation, or postponement on time.[3] To be considered complete, the request must contain enough information for the school to determine whether the borrower is entitled to the relief requested.

Late charges on loans made for periods of enrollment that began on or after January 1, 1986 may be assessed only during the billing process; they may not be imposed once the school begins collection procedures. For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Optional penalty charge before 1/1/86

Schools are authorized but not required to assess a penalty charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is $1 for the first month and $2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is $3; the maximum penalty for loans payable quarterly is $6. Penalty charges on these loans may be assessed only during the billing process.

The school may either add the penalty or late charge to the principal amount of the loan as of the first day the payment was due or may include the charge with the next payment that is scheduled after the date it notifies the borrower that the charge must be paid in full by the next payment due

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[2] If the borrower elects to make payments by means of an electronic transfer of funds from the borrower's bank account, the school is not required to send the borrower a statement of account at least 15 days before the due date of each subsequent payment. However, the school must send the borrower an annual statement of account.

[3] The mandatory late charges do not apply retroactively to loans made before July 1, 1987, but would apply to any NDSL borrower who has a re-signed revised promissory note.

date. Schools may wish to use the first overdue notice to inform the borrower of the late charge.

Second notice

If the borrower does not satisfactorily respond to the first overdue notice, the school must continue to contact him or her. A **second overdue notice** must be sent within **30 days** after the first. If there is still no response, a **final demand letter** must be sent within **15 days** after the second notice. The letter may be (but does not have to be) sent by certified mail. The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, postponement, or cancellation **within 30 days** of the date of the letter, the school will refer the account for collection[4] or litigation and will report the default to a credit bureau as required by law.

Final demand

The school may skip the first two letters and send just the final demand letter within **15 days** after the payment is overdue if the borrower's repayment history has been unsatisfactory or if the school can reasonably conclude the borrower does not intend to repay or to seek forbearance, deferment, postponement, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has previously failed to make payments when due, has previously failed to request deferment, forbearance, postponement, or cancellation on time, or has previously received a final demand letter.

Billing Procedures

30-day notice	Payment Due	**1st overdue notice**— within 15 days after due date	**2nd notice**— within 30 days after 1st	**Final Demand**— within 15 days after 2nd notice	Within 30 days of final demand— phone. Refer for collection[4] (or litigation, if necessary).

Telephone contact

If the borrower does not respond to the final demand letter within 30 days, the school must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, the school may be able to avoid the more costly procedures of collection.

[4] The school can use the services of the Department's Default Reduction Assistance Project (DRAP) before the loan goes to a collection firm; DRAP is discussed in Section 8, "Default."

If the school calls a number and there is no answer, the school should make at least one other attempt to reach the borrower on a different day and at a different time. If the borrower has an unlisted telephone number, the school must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If the school is still unsuccessful, it should document that fact in its files.

If the borrower does not respond satisfactorily to the final demand letter, the school must try and recover the amount owed from the borrower. For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. In an effort to recover the loan from one party or the other, a school often sends the endorser a copy of the final demand letter that was sent to the borrower and copies of all future communications about the borrower's debt, including dunning letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Acceleration

The school may choose to accelerate a loan if the borrower misses a payment or does not file for deferment, forbearance, postponement, or cancellation on time. Acceleration means making payable immediately the entire outstanding balance including interest and any applicable late charges or collection fees. Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower written acceleration notice at least 30 days in advance. The notice may be included in the final demand letter or in some other written notice sent to the borrower. If the loan is accelerated, the school must subsequently send the borrower a second notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if a school plans to assign the loan to the Department for collection, the school must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed after the date of acceleration.

ADDRESS SEARCHES

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- ◊ review the records of all appropriate institutional offices and
- ◊ review telephone directories or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, the school must either use its own personnel to try to locate the borrower (employing and documenting

efforts comparable to commercial skip-tracing services), or must use a commercial skip-trace firm. The school may elect to use the Internal Revenue Service skip-tracing service provided through the Department, discussed below.

If the school still cannot locate the borrower after taking these steps, it must continue to make reasonable attempts at least twice a year until

- ◊ the loan is recovered through litigation;
- ◊ the account is assigned to the Department; or
- ◊ the account is written off. (See Section 7.)

IRS/ED skip-tracing service

To help locate a borrower whose collection notices are returned undelivered, a school may participate in the IRS/ED skip-tracing service. The Higher Education Amendments of 1992 eliminated the **requirement** that schools use the IRS/ED skip-tracing service in carrying out the provisions of due diligence. However, the Department strongly encourages schools to continue to use this service. The IRS/ED skip-tracing service is one of the most powerful tools available to schools for locating defaulted borrowers. The Department will continue to send schools that participate in the Perkins Loan Program periodic Dear Colleague letters that give instructions for completing the report.

Filing a Safeguard Activity Report to use IRS/ED skip tracing

In order to maintain eligibility to participate in the IRS/ED skip-tracing service, each participating school must submit an annual Safeguard Activity Report, in accordance with the IRS publication 1075. If a school fails to submit the Report, it will lose its eligibility to participate in the service. The reports help ensure that procedures are established and utilized to safeguard the names and addresses of defaulted borrowers under the Perkins Loan Program. General questions should be directed to the Department's Program Systems Service, Campus-Based Programs Systems Division. The telephone number is (202) 708-6726.

section 7

Due Diligence—Loan Collection

COLLECTION PROCEDURES

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default.

Report default to credit bureau

The **first** step a school must take in the collections process is to report a defaulted loan account to a national credit bureau organization with which the U.S. Department of Education has an agreement. (The debtor has the right to appeal the accuracy and validity of the information reported to the credit bureau.)

Report changes in loan status to credit bureau

The school must report any changes in the status of the borrower's loan account to the same national credit bureau to which the school originally reported the default. The school must use the reporting procedures required by that credit bureau. The school must also respond within one month to any inquiry received from that or any other credit bureau about the information reported on the loan amount.

School or firm collects

The **second** step the school must take in the collections process is to attempt collection by either using its own personnel or hiring a collection firm.

If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the school has two options—either to litigate or to make a second effort to collect.

Procedures for second effort to collect

A second effort to collect requires one of the following procedures:

- ◊ If the school first attempted to collect by using its own personnel, it must refer the account to a collection firm unless state law prohibits doing so.

- ◊ If the school first used a collection firm, it must attempt to collect by using its own personnel or by using a different collection firm, or the school must submit the account to the Department for assignment.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

Procedures if school is unable to collect

If the school is unsuccessful in its effort to place the loan in repayment after following the procedures above, the school must continue to make annual attempts to collect from the borrower until

- ◊ the loan is recovered through litigation;
- ◊ the account is assigned to the Department; or
- ◊ the loan is written off.

Ceasing collection activity on defaulted loans

A school may cease collection activity on a defaulted account with a balance of less than $25.00, including outstanding principal, accrued interest, collection costs and late charges if the borrower has been billed for this balance. The school will not have to exercise required due diligence even though interest will continue to accrue and may put the account over $25.00. The school must document that it ceased collection activity when the account was under $25.00. However, the school will not be able to assign the account to the Department, and the borrower will remain responsible for repaying the account, including accrued interest. The account will still be included in the school's cohort default rate, if applicable, and the borrower is still in default and ineligible for Student Financial Assistance (SFA) funds.

A school may cease collection activity on defaulted accounts with balances of less than $200, including outstanding principal, accrued interest, collection costs and late charges, if the school carried out the required due diligence and if the account has had no activity for four years. Such an account will be included in the school's cohort default rate, if applicable. The borrower is still in default and ineligible for additional SFA funds.

Writing off accounts

A school may write off an account with a balance of **less than $5.00**, including outstanding principal, accrued interest, collection costs and late charges. If the school writes off an account, the school may no longer include the amount of the account as an asset of the Federal Perkins Loan fund. If a school receives a payment from a borrower after the loan has been written off, it must deposit that payment into the fund.

Assessing collection costs against borrower

The school must determine the amount of collection costs to be charged to the borrower for address searches, collection, litigation, use of contractors for collection of the loan, and/or bankruptcy proceedings. The collection costs must be based on either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency. The school must assess all reasonable collection costs against the borrower without regard to any provisions of state law that would conflict with the above provisions.

Limit on collection charges on older notes

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987-88 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for **all** collection costs on all of his or her outstanding loans borrowed under this program. A school should note, however, that advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.

The school determines what collection costs are reasonable, as long as they are based either on actual costs the school incurs for the particular borrower or on average costs incurred in collecting loans in similar stages of default. The school should explain to the borrower how it calculates collection costs, based on the cost analysis used to support charges of these costs to the Perkins Loan Fund. The school must be able to document the basis for the costs assessed.

ACTIONS A SCHOOL MAY TAKE TO AVOID LITIGATION

Before filing suit on a loan, a school may waive all collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not a precondition. The amount waived may be charged to the Perkins Loan Fund.

Another alternative is for the school to waive a **portion** of the collection costs on a loan if doing so will give the school greater flexibility in negotiating repayment. The school may waive a percentage of the collection costs, applicable to the amount then due on the loan, equal to the percentage of the past-due balance the borrower repays within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of

the collection costs incurred through the date of that payment. The amount waived may be charged to the Perkins Loan fund.

As stated earlier, a school may write off an account with a balance of **less than $5.00**, including outstanding principal, accrued interest, collection costs and late charges but may no longer include the amount of the account written off as an asset of the Perkins Loan fund.

Compromise

A school may compromise on the repayment of a defaulted loan if the school has fully complied with all due diligence requirements and the student borrower pays in a single lump-sum payment

- ◊ at least 90% of the outstanding principal balance on the loan;
- ◊ all interest due; and
- ◊ any collection fees due.

The federal share of the compromise repayment must bear the same relation to the school's share of the compromise repayment as the Federal Capital Contribution (FCC) to the school's loan fund under this part bears to the school's Institutional Capital Contribution (ICC) to the fund.

The Federal Family Education Loan (FFEL) Program regulations and the William D. Ford Federal Direct Loan Program regulations allow a borrower to receive a Federal Consolidation Loan or a Direct Consolidation Loan, respectively, that could include a defaulted Perkins Loan, National Direct Student Loan (NDSL), or Defense Loan. Federal Consolidation Loans are discussed in Chapter 10. Direct Consolidation Loans are discussed in Chapter 11. The amount eligible for consolidation under either program is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a **court order** remains in default status until paid and is not eligible for consolidation.

LITIGATION

If the collection procedures described in this section do not result in the repayment of a loan, the school must determine at least once a year whether all the conditions listed below are met. If so, the school must litigate. The conditions are

HEA Section 484A(a)

- ◊ the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Perkins Loans and NDSLs at the school is more than $200;
- ◊ the borrower can be located and served with process;

- ◊ the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time;[1]

- ◊ the borrower does not have a defense that will bar judgment for the school;[2] and

- ◊ the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are **not** met, the school may sue if it chooses to do so. No federal or state statute of limitation can apply to enforcement actions to collect Perkins Loans or NDSLs.

The school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. The school is also required to try to recover all costs previously incurred in the collection of overdue payments if these collection costs have not been paid by the borrower; a percentage of these unrecovered costs may be charged to the fund as explained below.

Assignment of amount of $25 or more

If the school cannot collect a payment after following all collection procedures (including litigation, if required), it may, with the Secretary's approval, assign the account to the Department for collection. A school may assign a loan to the Department for collection if the amount outstanding is **$25 or more**, including principal, interest, collection costs, and late charges.

If the school has a cohort default rate of more than 20% as of June 30 two years before the school submits an assignment request, the school must provide documentation to the Department that it has complied with all of the due diligence requirements discussed in this chapter.

DEPOSIT OF FUNDS COLLECTED

A school must deposit any funds collected into an interest-bearing bank account. A collection agency, collection attorney, or loan servicer is required to deposit funds collected into an interest-bearing account only if the agency, attorney or servicer holds such amounts for more than 45 days. The account must be insured by an agency of the federal

[1] Defining "a reasonable period of time" is left to the school.

[2] If the school determines that the borrower has a partial defense, it must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt.

government, secured by collateral of reasonably equivalent value, or invested in low-risk income-producing securities, such as obligations issued or guaranteed by the United States.

A school may deduct from the interest earned any bank charges incurred as a result of maintaining the fund assets in an interest-bearing account, such as service charges, and deposit only the net earnings into the fund.

COSTS CHARGEABLE TO THE FEDERAL PERKINS LOAN FUND

The following costs of actions a school takes in an attempt to collect past-due payments on a loan must be charged to the borrower: billing costs associated with past-due payments (not routine billing costs) and costs of address searches, collection, litigation, the use of contractors, and bankruptcy litigation.

Billing costs for past-due payments sometimes chargeable

The only **billing costs** a school may charge the fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. If the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the fund for only the unpaid portion of the actual cost of the calls.

Only the collection costs discussed below that are **waived or not paid by the borrower** may be charged to the Perkins Loan fund:

- **Collection costs waived**. As stated earlier, a school may waive all collection costs on a loan if the borrower, within 30 days of entering into a new repayment agreement, makes a lump-sum payment of the entire amount outstanding or may waive a percentage of the collection costs equal to the percentage the borrower pays on the amount outstanding on the loan within 30 days of entering a new repayment agreement. The amount waived may be charged to the fund.

- **Cost of a successful address search**. A reasonable amount for the cost of a successful address search, if not paid by the borrower, may be charged to the fund provided that the school either used a commercial skip-trace service or its own personnel, employing methods comparable to commercial skip-tracing practices. Defining a reasonable amount is left to the school.

- **Cost of reporting defaulted loans to credit bureaus**. The following costs not paid by the borrower may be charged to the fund: the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account,

and responding to any inquiry from a credit bureau about the status of a loan.

◊ **Collection costs**. Collection costs not paid by the borrower may be charged to the fund if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the fund for collection costs initially charged the fund but subsequently paid by the borrower.

◊ **Collection costs resulting from litigation, including attorney's fees**. Collection costs resulting from litigation, including attorney's fees, may be charged to the fund if not paid by the borrower, but must not exceed the sum of

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

◊ **Costs of firm performing both collection and litigation services**. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Documentation of costs charged to the fund

For audit purposes, a school must support costs charged to the fund with appropriate documentation including telephone bills and receipts from collection firms. Due diligence activities involving **fixed costs** (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a **contingent-fee** basis; if these activities are successful, the school may charge the fund for the costs associated with them under the conditions stated previously. Because the school incurs no costs if these activities are not successful, it may not charge the fund for them unless they are successful.

As stated earlier, a school may write off a student's account if the total amount owed on the account is less than $5.00. "Total amount owed" means outstanding principal, accrued interest, collection costs, and late charges. If the school writes off an account, it no longer includes it as an asset of the fund. If the school receives a repayment from the borrower after the loan has been written off, the school must deposit it into the fund.

USING BILLING AND COLLECTION FIRMS

The school may use a contractor for billing or collection, but the school is still responsible for complying with the Subpart C regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about canceling, postponing, or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

A school using a billing service may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, a school may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Quarterly activities statement

A school using either a billing service or a collection firm must ensure that the service or firm issues, at least quarterly, a statement showing the activities for each borrower, such as amounts collected or changes in the borrower's name, address, telephone number, or Social Security Number, if known. The service or firm must also give the school, at least quarterly, a list of charges for skip-tracing activities and telephone calls.

The school must also ensure that the billing service or collection firm instructs the borrower either to mail payment checks to the school directly or to a bank where a lock-box is maintained for the school. Alternatively, the service or firm may deposit the funds into an interest-bearing institutional trust account.

If a billing service or a collection firm is depositing funds received directly from the borrower into an institutional trust account, this institutional trust account must be an interest-bearing account if those funds will be held for longer than 45 days. A billing service is not permitted to deduct its fees before depositing the amount it receives from borrowers. A collection firm may deduct its fees before depositing the funds it receives from borrowers if the school authorizes it to do so.

The firm may commingle in its accounts the funds collected as long as it can identify the interest earnings and the amount collected by the institution. If a **collection** firm chooses this last procedure, it may, **if the**

school authorizes it, deduct its fees before depositing the amount collected. A **billing** service may **not** deduct its fees from the amount it receives from borrowers.

Fidelity bond or comparable insurance

Just as schools are required to keep adequate fidelity bond coverage to protect the government's interest in the Student Financial Assistance (SFA) funds they receive, it is appropriate to ensure the same sort of protection from third parties who handle Perkins Loan Program funds for the school. Accordingly, a school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service. Billing services (and **collection firms not authorized to deduct their fees** from borrowers' payments) must be bonded or insured in an amount not less than the amount of funds the school expects to be repaid in a two-month period on the accounts it refers.

Larger bond for collection firm that deducts fees

Collection firms authorized to deduct their fees from borrowers' payments must be bonded or insured:

1. If the amount the school expects to be repaid in a two-month period is **less than $100,000**, the collection firm must be bonded or insured in one of the following amounts, whichever is **less:**

   - 10 times the amount the school expects to be repaid on accounts it refers to the firm during a two-month period **or**
   - the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's accounts).

2. If the amount the school expects to be repaid in a two-month period is **$100,000 or more**, the collection firm must be bonded or insured in an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period. **The bond or insurance must name the school as beneficiary**. (This is not a requirement when the payments expected in a two-month period are less than $100,000.)

The school must review annually the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

Law firm as collection firm

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

Default

Default in the Federal Perkins Loan Program is defined as "the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement." Schools are required to comply with the due diligence regulations in regard to notifying the borrower about payments due or overdue, billing procedures, and collection procedures before resorting to litigation. Due diligence procedures are discussed in Sections 6 and 7 of this chapter.

Definition of default

A school must report a defaulted loan account to a national credit bureau organization with which the U.S. Department of Education has an agreement. A school must also report any change in account status to the same national credit bureau to which it originally reported the default, according to the reporting procedures of the credit bureau. If the school receives an inquiry from any credit bureau about the information reported on the loan, the school must respond to the inquiry within one month of its receipt.

Report to credit bureau

The debtor has the right to appeal the accuracy and validity of information reported to the credit bureau. For more information about reporting Perkins Loans or National Direct Student Loans (NDSLs) to a national credit bureau, see Section 10, "Credit Bureau Reporting."

A borrower who has made "satisfactory arrangements to repay" a defaulted loan reestablishes his or her eligibility to apply for federal student aid. However, the loan is still considered to be in default and will continue to be reported as defaulted to a national credit bureau organization with which the Department has an agreement. The term "satisfactory arrangements to repay" is defined as the "establishment of a new written repayment agreement and the making of one payment each month for six consecutive months." If a borrower has made satisfactory arrangements to repay a defaulted loan prior to the end of the cohort period and if the loan entered repayment during the cohort period, the loan is not included as a defaulted loan in calculating the school's cohort default rate.

Default Reduction Assistance Project (DRAP)—Dear Colleague Letter CB-94-7

To assist schools in bringing defaulted borrowers into repayment, the Department has established the Default Reduction Assistance Project (DRAP). Under DRAP, a school can request that the Department send a borrower any of three letters designed to warn the student of the seriousness of default. The Department provides these services at no cost to the school. Participation in DRAP is voluntary. General questions about DRAP should be directed to the Campus-Based Programs Systems Division. The telephone number is (202) 708-6726. As DRAP is intended to get the borrower back into repayment **before** the account goes to a collection firm, this service should **not** be requested once a collection agency is involved. DRAP service is usually provided during the 30-day period during which a school is awaiting response to the final demand letter.

Skiptracing and the Safeguard Activity Report—CB-96-15 (LD), July 1996

Although schools are no longer required to use the IRS/ED skiptracing service for carrying out the due diligence provisions of the Perkins Loan Program, the Department strongly encourages schools to continue to use this service. The IRS/ED skiptracing service is one of the most powerful tools available to schools for locating defaulted borrowers. In order to maintain eligibility to participate in the in the IRS/ED Skiptracing Service, each school that participates must submit an annual Safeguard Activity Report in accordance with IRS Publication 1075. If a school fails to submit the report, it will lose its eligibility to participate in the service. Dear Colleague Letter CB-96-15 (LD), dated July 1996, included instructions for completing the report that was due by August 31, 1996. The reports help ensure that procedures are established and utilized to safeguard the names and addresses of defaulted borrowers under the Perkins Loan Program. General questions should be directed to the Department's Program Systems Service, Campus-Based Programs Systems Division. The telephone number is (202) 708-6726.

COMPROMISE OF REPAYMENT OF DEFAULTED LOAN

To encourage repayment, a school may compromise on the repayment of a defaulted loan if the school has fully complied with all due diligence requirements discussed in Section 6 of this chapter and if the borrower pays in a single lump-sum payment

- 90% of the outstanding principal balance on the loan;
- the interest due on the loan; and
- any collection fees due on the loan.

The federal share of the compromise repayment must bear the same relation to the school's share of the compromise repayment as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

PENALTY FOR SCHOOLS WITH HIGH COHORT DEFAULT RATES

If a school's cohort default rate meets the following levels, a default penalty is imposed on the school, as described below:

- ◊ If a school's cohort default rate equals or exceeds 15%, it must establish a default reduction plan;
- ◊ If the school's cohort default rate is greater than 15%, it may not participate in the Expanded Lending Option (ELO);
- ◊ If the school's cohort default rate equals or exceeds 20% but is less than 25%, the school's FCC will be reduced by 10%;
- ◊ If the school's cohort default rate equals or exceeds 25% but is less than 30%, the school's FCC will be reduced by 30%;
- ◊ If the school's cohort default rate equals or exceeds 30%, the school's FCC will be reduced to zero.

CALCULATING A SCHOOL'S COHORT DEFAULT RATE

A school's cohort default rate is calculated for a particular year based on information the school provides on the annual Fiscal Operations Report.

Definition of "cohort default rate"

The term "cohort default rate" means (for any award year in which 30 or more current and former students at the school enter repayment on a loan received for attendance at that school) the percentage of those current and former students who enter repayment in that award year on the loans received for attendance at that school and who default before the end of the following award year.

For any award year in which **less** than 30 current and former students at the school enter repayment on a loan received at the school, "cohort default rate" means the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the **three** most recent award years and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

Each school's 1998-99 *Fiscal Operations Report and Application to Participate* (FISAP) lists the cohort default rate that affects the school for the 1998-99 award year. We will refer to that rate as the school's current cohort default rate. This rate (for schools with at least 30 borrowers entering repayment each year) was calculated by computing the number of borrowers who entered repayment between July 1, 1995 and June 30, 1996. For purposes of

the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

Denominator of formula

The denominator in the calculation is the number of borrowers entering repayment during the specified award year (1995-96 for the 1998-99 FISAP). In calculating the default rate, each loan is attributed only to the school that made the loan.

Numerator of formula

The numerator in the calculation is the number of people in the denominator who were in default as of the end of the following award year. In calculating a school's current cohort default rate, the numerator is the number of people in the denominator who were in default at the end of the 1996-97 award year (June 30, 1997). For purposes of that calculation, as of June 30, 1997, a borrower must have been in default for at least 240 consecutive days for monthly payments or 270 consecutive days for other installments. Even if the school had paid off the loan, the borrower still had to be included in this calculation. However, borrowers who had made satisfactory arrangements to repay the loan could be excluded from the numerator.

DEFAULTED LOANS INCLUDED IN A SCHOOL'S COHORT DEFAULT RATE

The criteria listed below determine which defaulted loans must be included in the formula to determine a school's cohort default rate:

◊ A borrower must be included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.[1] This borrower must be included regardless of the loan's status on June 30 of the second year of the cohort period.

- For example, if a borrower's loan is in default for at least 240/270 consecutive days and an authorized period of deferment begins after the 239th day past due, the loan would be counted as a default in the school's cohort default rate even if the loan is in a deferred status on June 30.

  Once the loan is 240/270 days past due, bringing it below 240/270 days past due or even bringing it current will not eliminate the loan from the cohort default rate. Because a

[1]Once the loan is 240/270 days delinquent, bringing the defaulted loan to less than 240/270 days delinquent or even bringing it current will not eliminate the loan from the cohort default rate.

borrower is not billed during an authorized period of deferment, the delinquency would not increase during the deferment.

◊ A loan is considered to still be in default if the school, its owner, agency, contractor, employee, or any other entity or individual affiliated with the school makes a payment to prevent the borrower from defaulting.

School makes payment

◊ If a borrower pays a past-due loan in full, the loan will not be included in the school's cohort default rate.

Borrower pays loan in full

◊ A loan that is in default but on which the borrower has made satisfactory repayment arrangements is **not** considered to be in default for the purpose of determining a school's cohort default rate.

Satisfactory repayment arrangements

◊ In the case of a student who has attended and borrowed at more than one school, the student and his or her subsequent repayment or default are attributed to the school where the student received the loan that entered repayment in the award year.

Borrower with loans from multiple schools

◊ A defaulted loan that has been assigned to the Department is counted in determining a school's cohort default rate if the loan entered repayment during the appropriate time period. Assignments of loans to the Department no longer lower a school's default rate. In addition, the status of a loan that has been assigned to the Department is still considered in default until the loan is paid in full, even if the borrower has made satisfactory arrangements to repay the defaulted loan in order to qualify for additional aid from Student Financial Assistance (SFA) programs.

Loan assigned to the Department

◊ A loan that is 24 days or more past due but on which the school has granted a retroactive forbearance (after providing the necessary documentation to the school) is considered to be in default only for the purpose of determining a school's cohort default rate. The loan is not considered to be in default for the purpose of determining the borrower's eligibility for additional SFA funds.

Retroactive forbearance

RULES FOR CALCULATING THE NUMBER OF DAYS IN DEFAULT

The following rules are used in calculating the number of days a loan has been in default.

◊ The 240/270 consecutive days in default is determined by calculating the "age" of the account (that is, the number of consecutive days the oldest dollar is past due).

◊ A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.

- For example, suppose a borrower's monthly payment amount is $50. The borrower has made no payments for 5 months, making the loan 150 days past due. The borrower then makes one $50 payment. The school applies the payment to cover the first month's payment that was overdue, reducing the loan's past-due status from 150 days to 120 days because the earliest past-due payment is now 4 months old. The calculation of the number of days overdue begins with the oldest dollar past due.

◊ A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the cohort default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be included in the cohort default rate calculation.

- For example, let's use the same scenario as the example above. The borrower's oldest dollar is 120 days past due. The borrower does not make any additional payments for 90 days, making the oldest dollar 210 days past due. The borrower then makes a $50 payment, reducing the past-due status to 180 days. Another 60 days elapse without the borrower making a payment, bringing the oldest dollar to 240 days past due. At that point, the loan would be counted in the school's cohort default rate even if subsequent payments reduce the past-due status to less than 240 days.

◊ An exception to the 240/270-day threshold will be granted in a case where a borrower

1. would have qualified for a deferment for a period beginning prior to the loan hitting the 240/270-day threshold and

2. failed to file a request for the deferment in a timely manner.

For such a borrower, the loan's past-due status would be adjusted to reflect the deferment period beginning date. However, note that the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan's entire delinquency.

- Using the earlier example, the oldest dollar of the loan is 240 days past due. The borrower files a request for a deferment based on the fact that he or she is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school's cohort default rate.

COHORT DEFAULT RATE FOR A SCHOOL WITH MORE THAN ONE LOCATION

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.

Change from branch to freestanding school

If a school changes status from a branch of one school to a freestanding or independent school, the Department determines the cohort default rate based on the school's status as of July 1 of the award year for which the rate is being calculated.

Cohort default rate of schools that merge

If an independent school becomes a branch of another school or merges with another independent school, the Department determines the cohort default rate based on the combined number of students from both schools who enter repayment during the applicable award year and the combined number of students from both schools who default during the applicable award years. The new rate applies to the new consolidated school and all of its current locations.

Branch moves to another school

If a school changes status from a branch of one school to a branch of another school, the Department determines the cohort default rate based on the combined number of students from both schools who enter repayment during the applicable award year and the combined number of students from both schools who default during the applicable award years from both schools in their entirety.

Ownership changes

If a school has a change in ownership that results in a change in control, the Department determines the cohort default rate based on the combined number of students who enter repayment during the applicable award year and the combined number of students who default during the applicable award years at the school under both the old and new control.

DEFAULT REDUCTION PLAN

Any school with a cohort default rate that equals or exceeds 15% must establish and implement a plan designed to reduce defaults by its students in the future. The school must submit to the Department by December 31 of the calendar year in which the cohort default rate was calculated

- ◊ a written description of the default reduction plan or
- ◊ a statement indicating that the school agrees to comply with the following 14 required measures.

A school's default reduction plan must include the measures listed below and a description of the measures the school will take to reduce defaults. The school must explain how it plans to

1. revise admission policies and screening practices, consistent with applicable state law, to ensure that students enrolled in the institution, especially those who are not high school graduates or those who are in need of substantial remedial work, have a reasonable expectation of succeeding in their programs of study;
2. improve the availability and effectiveness of academic counseling and other support services to decrease withdrawal rates, including
   - providing academic counseling and other support services to students on a regular basis, at a time and location that is convenient for the students involved;
   - publicizing the availability of the academic counseling and other support services;

- establishing procedures to identify academically high-risk students and schedule those students for immediate counseling services; and

- maintaining records identifying those students who receive academic counseling;

3. attempt to reduce its withdrawal rate by conforming with its accrediting agency's standards of satisfactory progress and with those described in 34 CFR 668.34 and improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program in consultation with its academic accrediting agency;

4. increase the frequency of reviews of in-school status of borrowers to ensure the institution's prompt recognition of instances in which borrowers withdraw without notice to the institution—reviews must be conducted each month;

5. expand its job placement program for its students by

   - increasing contacts with local employers, counseling students in job search skills;

   - exploring with local employers the feasibility of establishing internship and cooperative education programs;

   - attempting to improve its job placement rate and licensing examination pass rate by improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program in consultation with the cognizant accrediting body; and

   - establishing a liaison for job information and placement assistance with the local office of the United States Employment Service and the Private Industry Council supported by the U.S. Department of Labor.

6. remind the borrower of the importance of the repayment obligation and of the consequences of default, and update the institution's records regarding the borrower's employer and employer's address as part of the contacts with the borrower under 34 CFR 674.42(b);

7. obtain from the borrower, at the time of a borrower's admission to the institution, information regarding references and family members beyond those provided on the loan application, in

order to provide the institution or its agent with a variety of ways to locate a borrower who later relocates without notifying the institution;

8. explain to a prospective student that the student's dissatisfaction with, or nonreceipt of, the educational services being offered by the institution does not excuse the borrower from repayment of any Perkins Loan;

9. use a written test and intensive additional counseling for those borrowers who fail the test to ensure the borrower's comprehension of the terms and conditions of the loan including those described in 674.16 and 674.42(a) as part of the initial loan counseling and the exit interview;

10. during the exit interview provided to a borrower

    - explain the use by institutions of outside contractors to service and collect loans;

    - provide general information on budgeting of living expenses and other aspects of personal financial management; and

    - provide guidance on the preparation of correspondence to the borrower's institution or agent and completion of deferment and cancellation forms;

11. use available audio-visual materials such as videos and films to enhance the effectiveness of the initial and exit counseling;

12. conduct an annual comprehensive self-evaluation of its administration of the Title IV programs to identify institutional practices that should be modified to reduce defaults, and then implement those modifications;

13. delay loan disbursements to first-time borrowers for 30 days after enrollment; and

14. require first-time borrowers to endorse their loan checks at the institution and to pick up at the institution any loan proceeds remaining after deduction of institutional charges.

ASSIGNMENT

Procedures for submitting assignment of defaulted Perkins, NDSLs, or Defense Loans were discussed in Dear Colleague letter CB-95-13, dated

June 1995 with a correction page provided in Dear Colleague letter CB-95-22, dated September 1995.

Assignment conditions

A school may assign a defaulted Perkins Loan or NDSL to the Department if

- ◊ the school has not been able to collect despite having followed due diligence procedures, including at least a first level of collection and litigation, if required by the regulations in effect on the date the loan entered default;
- ◊ the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is $25 or more; and
- ◊ the loan has been accelerated.

A promissory note may be assigned only during the submission period established by the Department.

Documents required for assignment

A school must submit the following documents to the Department for any loan it proposes to assign:

1. an assignment form—ED Form 553, provided by the Department and completed by the school, which must include a certification by the school that it has complied with the due diligence procedures discussed in Sections 6 and 7 of this chapter, including at least a first level collection effort;
2. the original promissory note or a certified copy of the original note;
3. a copy of the repayment schedule;
4. a certified copy of any judgment order entered on the loan;
5. one photocopy of completed ED Form 553;
6. a complete statement of the repayment history;
7. copies of all approved requests for deferment and cancellation;
8. a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;
9. documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection or

litigation services and has notified that firm to cease collection activity on the loans;

10. copies of all pleadings filed or received by the institution on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable; and

11. documentation that the institution has complied with all of the due diligence requirements if the school has a cohort default rate that is equal to or greater than 20% as of June 30 of the second year preceding the submission period.

Limitations on assignment

The Department will not accept assignment of a loan if

- ◊ the school has not included the borrower's Social Security Number;

- ◊ the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;

- ◊ the school has sued the borrower unless the judgment has been entered and assigned to the United States; or

- ◊ the loan has been canceled because the borrower has died or because the borrower has filed for, or been granted, cancellation due to permanent and total disability.

Assignments should be mailed to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4136

If the Department accepts the assignment of a loan, it will give the school written notice to that effect. **By accepting the assignment, the Department acquires all rights, title, and interest in the loan.** After the Department has accepted the assignment of the loan, the school must endorse and forward to the Department any subsequent payment(s) the borrower may make.

If the Department later determines an assigned loan to be unenforceable because of an act or omission on the part of the school or its agent, the

school will have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the fund is reimbursed, the Department transfers all rights to the loan back to the school.

A school must consider a borrower whose loan has been assigned to the United States for collection to be in default on the loan for the purpose of eligibility for assistance from SFA programs until the borrower provides the school with confirmation from the Department that he or she has made satisfactory arrangements to repay the loan.

DEFAULT PREVENTION SOFTWARE

IDPS computer software

The Department's computer software, called Institutional Default Prevention System (IDPS), is available free of charge to schools participating in our federal student aid programs. IDPS is a valuable tool for default prevention and reduction. To use IDPS, a school needs an IBM-compatible personal computer with at least 640K memory, MS-DOS (version 2.1 or newer), a hard disk (10 Megabytes or larger), and a printer. Dear Colleague letter 92-S-67, September 1992, included a description of the software and an order sheet. Questions about IDPS should be addressed to:

Attn: IDPS Software Distribution
U.S. Department of Education
7th and D Streets, S.W., ROB-3, Room 5012
Washington, D.C. 20202

Contact: Gail Gurley
Telephone Number: 202/708-8834

DEFAULT AND STUDENT ELIGIBILITY

Regulations specify that, to be eligible to receive assistance under the SFA programs, a student must not be in default and must **certify** that he or she is not in default on any SFA loan. This certification is found on the 1998-99 *Free Application for Federal Student Aid* (FAFSA). Prior to the 1996-97 award year, the certification was on the *Student Aid Report* (SAR). However, the regulations also provide an exception to the above rule. A student who is in default on a loan made under the Perkins Loan Program (a Perkins Loan, NDSL, or Defense loan) is eligible to receive assistance under an SFA program if the student is otherwise eligible and he or she:

- ◊ repays the loan in full or
- ◊ makes arrangements that are satisfactory to the holder of the loan to repay the loan balance and makes at least six consecutive monthly payments on time under these arrangements.

The term "satisfactory arrangements to repay" is defined as the establishment of a new written repayment agreement and the making of one payment each month for six consecutive months.

A student who is in default but has made satisfactory arrangements to repay the loan will receive a comment on his or her SAR that says

> "WARNING: Our records indicate that you are in DEFAULT on a federal student loan held by the U.S. Department of Education [or a state guaranty agency]. Since you have made satisfactory arrangements to repay this loan, you may be eligible to receive additional federal student aid at this time. However, if you fail to make scheduled payments, you will be denied future federal student aid."

Willingness to repay

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met. However, if a judgment is satisfied **involuntarily** (such as by garnishing the borrower's wages), a school should consider this as evidence of unwillingness to repay and should deny further loan assistance to the borrower.

Bankruptcy

Note that an SFA loan that is discharged in bankruptcy is not considered to be in default for the purpose of obtaining further grant or work assistance under the SFA programs. It is no longer a requirement that a borrower reaffirm a loan discharged in bankruptcy in order to be eligible to obtain additional student loans; this change is a result of the Bankruptcy Amendments Act of 1994, effective October 22, 1994. (Refer to Section 9 of this chapter.)

Loan consolidation

As stated earlier, the FFEL and Direct Loan Program regulations allow a borrower to receive a Consolidation Loan that could include a defaulted Perkins Loan. See Section 7 for more information. A defaulted loan that is being repaid under a **court order** would remain in default status until paid and is not eligible for consolidation.

9 Bankruptcy

The basic actions a school must take when a borrower files for bankruptcy protection are covered her, in Dear Colleague Letter GEN-95-40, dated September 1995, and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, a school should consult its attorney.

Stop collection outside bankruptcy proceedings

If a school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser for loans made prior to July 23, 1992. The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Provisions of the Crime Control Act of 1990 extended from 5 years to 7 years the period of time a loan must be in repayment before it can be discharged under chapter 7, 11, 12, or 13 of the Bankruptcy Code and provided that a Student Financial Assistance (SFA) loan is dischargeable during that same 7-year period only if the borrower proves that repayment would constitute an undue hardship. The regulations also reflect the changes made to the Bankruptcy Code by section 3007 of the Omnibus Budget Reconciliation Act of 1990; the regulations provide that a discharge under 1328(a) of the Bankruptcy Code does not discharge an education loan unless the loan entered the repayment period more than 7 years, excluding periods of deferment and forbearance, before the filing of the petition.

WHEN BORROWER REQUESTS DISCHARGE BASED ON UNDUE HARDSHIP

If a borrower files for bankruptcy protection requesting discharge of a loan on the ground of undue hardship under Chapter 7, 11, 12, or 13 of the Bankruptcy Code, or under 11 U.S.C. 1328(b), the school must follow the procedures discussed on the next page.

If the loan has been **in repayment for 7 years or more** (excluding deferment and forbearance periods), the school may **not** oppose a discharge that has been requested on the ground of undue hardship.

If the loan has been **in repayment for less than 7 years**, the school must determine, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents. If this would not be the case, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. The school may compromise a portion of that amount, if necessary to obtain a judgment.

When a borrower has filed a request for discharge on the ground of undue hardship, if the school is required under the steps described above to oppose the borrower's request, the school may file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

PROCEDURES WHEN BORROWER REQUESTS ADJUSTMENT IN REPAYMENT

Under Chapter 13, the borrower may request an adjustment in repayment terms. The borrower proposes a repayment plan, which is then ruled on by the bankruptcy court. If the borrower's repayment plan proposes full repayment of the loan, including all principal, interest, late charges and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed. The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325.[1] Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.

[1] 11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Perkins Loan bankruptcy cases. 11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding. 11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan. 11 U.S.C. 1328(b) concerns the discharge of debts. A school should consult an attorney for the best advice in bankruptcy cases.

◊ Second, to pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307 (see footnote on previous page) for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. For a loan that entered repayment more than 7 years before the borrower filed for bankruptcy (excluding periods of deferment), if the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b) (see footnote on previous page), the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Resuming billing and collection if loan is not discharged

A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 1328(a) or U.S.C. 1328(b) unless (1) the court has found that repayment would impose an undue hardship or (2) the loan entered the repayment period more than 7 years before the filing of the petition and the borrower's plan made some provision regarding the borrower's loan obligation or general unsecured debts.

Agreement to repay loan discharged in bankruptcy no longer required

As stated earlier, a borrower is no longer required to establish eligibility for a new student loan by agreeing to repay a loan discharged in bankruptcy. As a result of the Bankruptcy Reform Act of 1994, effective October 22, 1994, a student may not be denied student financial assistance from SFA programs, including the Federal Perkins Loan Program, solely on the basis of a bankruptcy determination. If a student has filed for or received a discharge in bankruptcy, has had a student loan discharged in bankruptcy, or has not paid a student loan that has been determined by a court of law to be dischargeable in bankruptcy, the bankruptcy may be considered as evidence of an adverse credit history but cannot be the basis for denial of a future loan from the Perkins Loan Program or other student loan programs. However, schools may continue to consider the student's **post**-bankruptcy credit history in determining willingness to repay the loan.

section 10 Credit Bureau Reporting

A promissory note for a Federal Perkins or National Direct Student Loan (NDSL) made by a school on or after July 23, 1992 must state that the school is required to disclose to any one national credit bureau the amount of the loan made to the borrower and that if the borrower defaults on the loan, the school must disclose that the borrower has defaulted, along with other relevant information, to the same national credit bureau to which it originally reported the loan.

34CFR 674.31

Before a school makes its first disbursement to a student, the school must provide the student with certain information, including a written statement indicating that the school must report any default on the loan to a national credit bureau. This statement may be on the written application material, on the promissory note, or on a separate written form.

Provide default information to student

At the time each disbursement is made, the school must report to any one national credit bureau with which the U.S. Department of Education has an agreement the amount of the disbursement, the date the disbursement was made, and the balance outstanding on the loan.

Report disbursement to credit bureau

The Department has entered into an agreement with each of the four national credit bureaus listed below. In order to comply with the credit-bureau reporting requirement, schools should enter into an agreement with any of the following national credit bureaus:

Credit bureaus with which the Department has agreements

Trans Union: contact Jeff Bugajski	312/466-7862
Experience (formerly TRW): contact "Customer Service"	800/831-5614 Ext. 3
CBI Equifax: ask for the telephone number of the CBI Equifax "territory" servicing your school	770/740-4376
Consumer Credit Association, Inc.: contact the Manager of Data Management Services	713/589/1190 Ext. 2101

Each credit bureau charges a fee for its services. These fees differ from national credit bureau to national credit bureau. These bureaus also have affiliated credit bureaus, which may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees. A school must obtain the Department's approval before using an affiliated credit bureau.

The cost associated with reporting Perkins Loan disbursements to a national credit bureau may not be charged against the Perkins Loan Fund. However, the school may use its administrative cost allowance to pay for these charges. Collection costs, which include the costs associated with reporting a defaulted Perkins Loan borrower to a national credit bureau, must be charged to the borrower. The fund can be charged for these costs only in relation to the amount collected from the bureau, as described in Section 7 of this chapter.

Disclosure of borrower's account information

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if such a disclosure would help enforce the terms and conditions of the loan. This authorization permits the release of information concerning loans in both default and nondefault status, and the authorization applies whether the reporting takes place at the time the loan is being disbursed or at the time the loan is in default status. Reporting good credit history (as well as reporting defaulted loans) is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower.

The Fair Credit Reporting Act allows a borrower/debtor to appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. The school should be aware of this right and should be prepared to handle and potentially accept the borrower's correction of information in accordance with the provisions of the act.

section 11 Program Funds

As discussed in Chapters 3 and 5, a school that wants to participate in any Student Financial Assistance (SFA) Program must sign a Program Participation Agreement with the Secretary. The agreement must be signed by the school official legally authorized to assume, on the school's behalf, the agreement's obligations.

For all of the SFA Programs, the agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and requires the school to administer each program in accordance with the Higher Education Act of 1965 (HEA), as amended, and the Student Assistance General Provisions regulations. The agreement also requires the school to submit annually to the U.S. Department of Education a report containing information that will enable the Department to determine the school's cohort default rate (discussed in Section 8 of this chapter).

As discussed in the introduction to this chapter, the agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a Perkins Loan fund (the fund) and to deposit into the fund—

- the federal capital contribution (FCC) the school receives as its federal allocation for the program for each award year (see the next page);
- the school's matching share—the institution's capital contribution (ICC), discussed on the next page;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from the federal government for cancellations (such as teacher cancellations) of Perkins Loans and National Direct Student Loans (NDSLs) (see Section 5 of this chapter);

- ◊ any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and

- ◊ proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

As discussed in the introduction to this chapter, a school applies for program funds annually through the electronic *Fiscal Operations Report and Application to Participate* (FISAP). The Department allocates funds directly to schools. The allocation (FCC) for the Perkins Loan Program is the amount of funding the school is authorized to receive from the Department for an award year. This amount is based on the funds appropriated by Congress for the program, as well as the allocation formulas, which were established by law and which do not provide for appeals.

The provisions of the HEA and the Perkins Loan Program regulations that affect the amount of a school's allocation are also discussed in the introduction to this chapter.

FISCAL PROCEDURES

Cash management—34CFR 668.163

Requirements for maintaining and accounting for SFA program funds are included in 34 CFR 668.163. The cash management requirements that apply in general to SFA programs (those in the General Provisions) are discussed in Chapter 3, Section 3. The cash management requirements specific to the campus-based programs (those in the Federal Work-Study [FWS], Federal Supplemental Educational Opportunity Grant [FSEOG], and Perkins Loan regulations) are discussed in Chapter 5, Section 3. The cash management provisions that apply specifically to the Perkins Loan Program follow. (Section 11 of this chapter provides additional information on fiscal procedures and records.)

Maintaining funds

- ◊ Under the provisions of 34 CFR 668.163(c), a school must maintain the Perkins Loan Program Fund in an interest-bearing bank account or investment account consisting predominately of low-risk, income-producing securities, such as obligations issued or guaranteed by the United States; interest or income earned on fund proceeds are retained by the school as part of the Perkins Loan Fund.

Notification of disbursement

- ◊ If a school credits a student's account at the school with Perkins Loan funds, the school must notify the student of the date and amount of the disbursement, the student's right to cancel all or a portion of that loan and his or her right to have the funds

returned to the school's Perkins fund; a detailed discussion of these provisions is in Chapter 5, Section 3.

Cash management requirements specific to the Perkins Loan Program 34CFR 674.19

- ◊ A school must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize payments and disburse Perkins Loan funds to students.

- ◊ A separate bank account for federal funds is not required, unless the school fails to comply with the requirements in the cash management regulations and program participation standards discussed in Chapter 3, Section 3.

- ◊ A school must notify any bank that federal funds are deposited in an account by ensuring that the name of the account clearly shows that federal funds are deposited in the account or notify the bank in writing of the name of the account and keep a copy of this notice in its files.

- ◊ The school must maintain sufficient liquidity in the Perkins Loan Fund to make required disbursements to students.

- ◊ A school must deposit its ICC into its fund prior to or at the same time it deposits any FCC

- ◊ A school must establish and maintain program and fiscal records that are reconciled at least monthly.

- ◊ Each year a school must submit a Fiscal Operations Report plus other information required by the Department; the school must ensure that the information reported is accurate and must submit it on the form and at the time the Department specifies.

RECORDKEEPING REQUIREMENTS

A school must follow the recordkeeping requirements in the General Provisions (discussed in Chapter 3, Section 7), those specific to the campus-based programs, and those specific to the Perkins Loan Program. Perkins Loan records a school must maintain include but are not limited to

- ◊ the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for a Perkins Loan;

- ◊ the student's application data and data submitted to the Department or the school on behalf of the student;

- documentation of each student's eligibility for a Perkins Loan;
- documentation of the amount of a Perkins Loan, its payment period, and the calculations used to determine the amount of the loan;
- documentation of the date and amount of each disbursement of Perkins Loan funds;
- documentation of the school's calculation of any refunds or overpayments due to or on behalf of the student and the amount, date, and basis of the school's calculation;
- documentation of the payment of any refund or overpayment to the SFA program fund or the Department;
- information collected at initial and exit loan counseling required by Perkins Loan regulations; and
- reports and forms used by the school in its participation in a campus-based program, and any records needed to verify data that appear in those reports and forms.

In addition to following the recordkeeping requirements mentioned in Chapters 3 and 5, a school must to follow the procedures in 34 CFR 674.19 for documentation of a student's Perkins Loan repayment history. The school must maintain a repayment history for each borrower that shows

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

Records readily available for review—34CFR 668.24(d)

A school must make its records readily available for review by the Department or its authorized representative at an institutional location designated by the Department or its representative.

Generally, a school must keep records relating to the school's administration of a campus-based program or the Federal Pell Grant Program for three years after the end of an award year for which the aid was awarded and disbursed under those programs. There are some exceptions to this requirement:

- The school must keep the *Fiscal Operations Report and Application to Participate* (FISAP) in the Perkins Loan, FSEOG, and FWS Programs, and any records necessary to support the data contained in the FISAP, including "income grid information," for three years after the end of the award year in which the FISAP is submitted. ***34CFR 668.24(e)(1)(i)***

- The school must keep repayment records for Perkins Loans, including records relating to cancellation and deferment requests for at least three years from the date a loan is assigned to the Department, canceled, or repaid. ***34CFR 674.19(e)(1)(ii)***

- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later. ***34CFR 668.24(e)(3)***

For information on the formats in which a school must keep its campus-based program records, see Chapter 5, Section 3.

The Federal Student Financial Aid Handbook 1998-99

Federal Work-Study Program

644

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CONTENTS

CHAPTER 7
FEDERAL WORK-STUDY PROGRAM

INTRODUCTION **1**
Work-Colleges Program 1

SECTION 1: SELECTING RECIPIENTS AND ASSIGNING JOBS **3**
General Student Eligibility Requirements 3
Assigning Jobs 3
Job Descriptions 4
Employment Conditions and Limitations 5

SECTION 2: CALCULATING FWS AWARDS **9**
Need Analysis Formulas 9
Determining Maximum FWS Eligibility 9
Earnings Applied to Cost of Attendance 10
FWS Overawards and resources 11

SECTION 3: PAYING STUDENTS **13**
Establishing Wage Rates 13
Disbursement 14
Payroll Records 16

SECTION 4: TYPES OF EMPLOYMENT **19**
Community Service Jobs 19
Establishing FWS Community Service Jobs 21
America Reads Challenge 23
Work on Campus 26
Work for Proprietary School on or off Campus 27
Work off Campus for Nonprofit or Government Agency 27
Work off Campus for Private For-Profit Companies 29
Off-Campus Agreements 30
FWS Employment During Period of Nonattendance 31
Terms Used in the Definition of Community Services 32
List of Agencies, Institutions, and Activities Included in the Definition of Community Services 32

SECTION 5: PROGRAM FUNDS **35**
Allocation and Reallocation 36
Federal Share Limitation 38
NonFederal Share 39
Carry Forward/Carry Back 41
Limitations on Use of Funds Carried Forward or Back 42
Transfer of Funds to the FSEOG Program 42
Administrative Cost Allowance (ACA) 43
Fiscal procedures and records 44

SECTION 6: JOB LOCATION AND DEVELOPMENT **45**
JLD Program Participation 45
Student Eligibility 46
Use of FWS Allocation for JLD Program 46
Use of JLD Program Funds 46
Federal Share Limitation 46
Allowable Program Costs 47
FWS Students as Staff in the JLD Program 47
JLD Reporting on the FISAP 48
Multi-Institutional JLD Programs 48

APPENDIX: MODEL OFF-CAMPUS AGREEMENT **49**

Introduction

The Federal Work-Study (FWS) Program encourages the part-time employment of undergraduate and graduate students who need the income to help pay for their cost of education, and encourages FWS recipients to participate in community service activities. Since the beginning of the 1994-95 award year, schools have been required to utilize money from their FWS Program funds to compensate students employed in community service jobs. (See below.)

34CFR 673.1

WORK-COLLEGES PROGRAM

The Higher Education Amendments of 1992 authorized the Work-Colleges Program. Schools that satisfy the definition of "work-college" may apply with the U.S. Department of Education to participate in the program. A work-college may transfer funds from its allocation for the FWS Program and/or Federal Perkins Loan Program to fund the school's Work-Colleges Program.

The Work-Colleges Program recognizes, encourages, and promotes the use of comprehensive work-learning programs as a valuable educational approach when used as an integral part of the school's educational program and as a part of a financial plan that decreases reliance on grants and loans. The program also encourages students to participate in community service activities.

The term "work-college" is defined as an eligible institution[1] that

- ◊ is a public or private nonprofit school with a commitment to community service;
- ◊ has operated a **comprehensive work-learning program** for at least two years;
- ◊ provides students participating in the comprehensive work-learning program with the opportunity to contribute to their education and to the welfare of the community as a whole;

[1] See Chapter 3, Section 1 for the definition of an eligible institution.

- ◊ requires all students who reside on campus to participate in a comprehensive work-learning program; and

- ◊ requires providing services as an integral part of the school's educational program and as part of the school's educational philosophy.

A "comprehensive student work-learning program" is defined as a student work/service program that

- ◊ is an integral and stated part of the institution's educational philosophy and program;

- ◊ requires participation of all resident students for enrollment, participation, and graduation;

- ◊ includes learning objectives, evaluation, and a record of work performance as part of the student's college record;

Purpose of Work-Colleges Program

- ◊ provides programmatic leadership by college personnel at levels comparable to traditional academic programs;

- ◊ recognizes the educational role of work-learning supervisors; and

Definition of work-college

- ◊ includes consequences for nonperformance or failure in the work-learning program similar to the consequences for failure in the regular academic program.

Additional requirements for the Work-Colleges Program are found in 34CFR 675, Subpart C.

section 1 Selecting Recipients and Assigning Jobs

GENERAL STUDENT ELIGIBILITY REQUIREMENTS

Financial need

To be eligible for a Federal Work-Study (FWS) job, a student must meet all eligibility requirements listed in Chapter 2, Section 1. In addition, a student must have financial need; that is, his or her cost of attendance (COA) must be greater than his or her Expected Family Contribution (EFC). A financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need. (See Section 2 of this chapter.) However, unlike the other two campus-based programs, the FWS Program does not require that priority be given to students who have **exceptional** financial need. In choosing students for FWS employment, schools must follow the selection procedures discussed in Chapter 5, Section 1.

Both undergraduate and graduate students are eligible to apply for employment under the FWS Program. A student who has earned a bachelor's or first professional degree is also eligible to receive an FWS job to pursue an **additional undergraduate** degree.

Less-than-full-time & independent students

Since the beginning of the 1993-94 award year, a school has been required to offer at least 5% of its federal FWS allocation to **less-than-full-time students** and **independent students** if 1) the allocation is partly based on the financial need of these students **and** 2) the financial need of these students exceeds 5% of the total financial need of all students at the school. (See Chapter 5, Section 1).

Teacher certification program

A school may award an FWS job to a student who is enrolled or accepted for enrollment on at least a half-time basis in an eligible teacher certification program. Criteria for an eligible teacher certification program are discussed in Chapter 5, Section 1.

ASSIGNING JOBS

A school must make FWS jobs reasonably available to all eligible students at the school. To the extent funds are available, the school must also make available "equivalent employment" (that is, similar non-FWS jobs offered

Complement academic/ career goals

or arranged by the school) to all students at the school who want to work. To the maximum extent practicable, a school must provide FWS jobs that will complement and reinforce each recipient's educational program or career goals.

In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors.

Jobs on or off campus

FWS jobs may be on campus or off campus. See Section 4 of this chapter for more information. Off-campus jobs must be in the public interest if the work is for a federal, state, or local public agency or for a private nonprofit organization. However, a school may use part of its FWS allocation to provide jobs in private for-profit organizations.

Community service jobs

FWS employment may be used for community service programs and for programs providing supportive services to students with disabilities. (Types of employment are discussed in Section 4 of this chapter.)

JOB DESCRIPTIONS

Each FWS position should have a job description that includes the following:

- ◊ the name and address of the student's employer (department, public agency, nonprofit organization),
- ◊ the purpose of the student's job,
- ◊ the student's duties and responsibilities,
- ◊ the job qualifications,
- ◊ the job's wage rate or range,
- ◊ the length of the student's employment (beginning and ending dates), and
- ◊ the name of the student's supervisor.

Job description purposes

The job description has several purposes:

- ◊ It clearly defines whether the job qualifies under the FWS Program.

- ◊ It provides the information needed to explain the position to a student and to help him or her select the type of employment most closely related to his or her educational or career objectives.

- ◊ It helps the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need.

- ◊ It establishes a written record, for both student and employer, of the job's duties and responsibilities so that there will be no misunderstanding.

Community service job description

If a student is employed with an agency or organization that provides community services, the school should, as with any other FWS position, have a job description that includes the duties and the responsibilities. For example, a community food bank appears to be the type of organization that has jobs that satisfy the definition of community services; however, the institution must review the individual job descriptions and determine if certain positions at the community food bank qualify. If the FWS recipient will work as a clerk in the food bank, the duties in the job description for the position of clerk would have to meet the definition of community services in the FWS regulations before the job could be considered an FWS community service job. (See the definition in Section 4 of this chapter.) The duties must include providing indirect or direct services designed to improve the quality of life for community residents, particularly low-income individuals, or designed to solve particular problems related to their needs. It is important to note that work performed off campus for a nonprofit agency must also be in the public interest. (See page 7-28.)

EMPLOYMENT CONDITIONS AND LIMITATIONS

The provisions discussed below apply to all work under FWS, whether on or off campus.

Employment conditions

FWS employment must be governed by employment conditions, including pay, that are reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

Minimum wage—CB-96-23

FWS employers must pay students at least the current federal minimum wage. The Small Business Job Protection Act of 1996 amended the Fair Labor Standards Act of 1938 by increasing the Federal minimum wage from $4.25 an hour to $4.75 an hour, effective October 1, 1996, and to $5.15 an hour, effective September 1, 1997 (refer to Dear Colleague Letter CB-96-23, dated November 1996). The Small Business Job Protection Act of

1996 also established a subminimum, or training, wage that is lower than the minimum wage. However, it is not permissible to pay the subminimum wage rate to students in FWS jobs.

Displacing regular workers prohibited

FWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with FWS students. Replacement is interpreted as displacement.

Employment in building used for religious purposes

FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment will violate this restriction, a school should consider the purpose of the part of the facility in which the work will take place and the nature of the work to be performed. If the part of the facility in which the student will work is used for religious worship or sectarian instruction, the work cannot involve construction, operation, or maintenance responsibilities. If that part of the facility is not being used for religious worship or sectarian instruction, the school should make sure that any work the student will perform meets general employment conditions and that other limitations are not violated.

Fees or commissions prohibited

Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit soliciting any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if they are a condition of employment and if the employer's non-FWS employees must also pay dues.

Voluntary services prohibited

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under FWS must be paid for all hours worked.

Academic credit for work-study

The fact that a student may receive academic credit from the work performed does not disqualify the job under FWS. However, there are certain restrictions. For a student who must complete an internship or practicum as part of his or her degree requirement, the internship or practicum does not qualify under FWS unless the employer normally pays all other persons who hold the same position or has paid all other persons who have held the same position in the past. An example of an internship that normally does not qualify as an FWS job is student teaching. If the employer normally pays or has paid these persons, the internship or practicum qualifies as an FWS job. A student who receives academic credit for an FWS job should not be paid any less than he or she would be paid if no academic credit were received. A student may not be paid for receiving instruction in a classroom, laboratory, or other academic setting.

Garnishment of FWS wages

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; paying FWS funds in such cases would not be in compliance with the Student Financial Assistance (SFA) requirement that funds be used solely for educational purposes. As schools may not necessarily be the employers in an off-campus employment arrangement, they must adopt effective procedures to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

Section 2 Calculating FWS Awards

NEED ANALYSIS FORMULAS

As stated earlier, a student must have financial need to be eligible for a Federal Work-Study (FWS) job; that is, the student's cost of attendance (COA) must be more than the amount of his or her Expected Family Contribution (EFC) as calculated by the Federal Need Analysis Methodology. Procedures for determining a student's COA and eligibility for aid from Student Financial Assistance (SFA) Programs are discussed in Chapter 2, Section 2. A financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need. Resources, as defined in the campus-based regulations, are listed in Chapter 5, Section 2. Additional information about resources and overawards, as they apply to the FWS Program, is included below.

COA
- EFC
= Financial need

DETERMINING MAXIMUM FWS ELIGIBILITY

In determining the maximum FWS award a student is eligible to receive, the aid administrator must take into account the following resources:

- ◊ those resources the aid administrator can reasonably anticipate at the time aid is awarded to the student,
- ◊ those the school makes available to its students, or
- ◊ those the aid administrator knows about.

The sum of a student's FWS award plus other resources may not exceed his or her financial need.

Financial need
- Other resources
= Maximum FWS award

Non-need-based earnings, such as earnings from a job a student locates on his or her own with a private employer, are not considered to be a resource for the current award year because they will be reported on the *Free Application for Federal Student Aid* (FAFSA) for the subsequent award year and will be used to determine the EFC for the subsequent award

Treatment of non-need-based earnings

year. Only net income from **need-based** employment is considered as a resource. Examples of need-based employment would be employment under the U.S. Department of Veterans Affairs' work-study program and employment with a state if that employment is based on the student's need for assistance to pay for educational expenses.

The school monitors each student's net income from need-based sources to determine whether the student's need has been met. The school does so by examining the school's payroll records of disbursements to the student under the FWS Program and any other need-based employment program. The school's FWS fiscal records must be reconciled at least monthly.

EARNINGS APPLIED TO COST OF ATTENDANCE

Treatment of taxes and job-related costs

Not all of a student's FWS earnings are available to the student for educational expenses. Some of the student's expenses may be job related. Therefore, to determine the net amount of a student's FWS earnings that will be available to help pay for his or her COA, the school must subtract estimated taxes and job-related costs from the student's gross FWS earnings. Examples of job-related costs include uniforms, the cost of meals at work, and transportation to and from work. During vacation periods, room and board may also be considered job-related costs if the student is paying them **only** because he or she has an FWS job.

For example, to earn a net FWS award of $1,000, a student with a Social Security tax of 7.65% and $100 in job-related expenses may earn up to $1,176.50 in gross earnings ($1,000 + $76.50 + $100). Only the net earnings of $1,000 are available to count toward the student's need for federal student aid and to help pay for the student's COA. Federal and state income taxes paid may also be withheld from a student's wages. In some cases, these should also be deducted from the student's gross income to calculate the net amount available to the student; however, if the aid administrator is certain that the student's federal taxes paid will be refunded by the Internal Revenue Service (IRS), the school should not subtract these amounts from the gross wages when calculating the net wages available to the student for the FWS award. Similarly, if the aid administrator is certain that the student's state taxes withheld will be refunded by the state, the school should not subtract these amounts from the gross wages when calculating the net wages available to the student for the FWS award. Only taxes the student will actually pay (those that will be withheld and **not** refunded) should be subtracted.

Working during a period of nonattendance

If the student works during a vacation or other period when he or she is not attending classes, his or her net FWS earnings (earnings minus taxes and job-related expenses) from that period must be counted toward payment of the student's COA for the **next** enrollment period (refer to Section 4 of this chapter).

A school is encouraged to tell each FWS recipient how much of his or her earnings it estimates to be counted toward payment of his or her COA. Of course, at the end of a student's employment, the school will need to review the estimate to see if it was accurate and to make adjustments if it was not.

FWS OVERAWARDS AND RESOURCES

Regulatory provisions regarding overawards and resources are in 34 CFR 673.5. A list of resources and a detailed discussion of the treatment of overawards in the campus-based programs, including FWS, is included in Chapter 5, Section 2, "Resources and Overawards."

Section 3 Paying Students

For information about determining the federal share and institutional share of Federal Work-Study (FWS) payments to students, refer to Section 5 of this chapter.

ESTABLISHING WAGE RATES

Undergraduate students are paid FWS wages on an hourly basis only. Graduate students may be paid by the hour or may be paid a salary. Regardless of who employs the student, the **school** is responsible for making sure the student is paid for work performed.

Determining work schedule

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student may work, provided no overaward occurs. (See Section 2 of this chapter.)

New minimum wage—CB-96-23

A student must be paid at least the current federal minimum wage of $5.15 per hour (refer to Dear Colleague Letter CB-96-23, dated November 1996), but there is no maximum wage rate. As noted in Section 1, it is not permissible to pay a lower "subminimum" or "training" wage to students in FWS jobs. A school may not count fringe benefits as part of the wage rate and may not pay a student commissions or fees. In determining an appropriate rate, the school must consider the following:

Pay related to skills

- ◊ the skills needed to perform the job,
- ◊ how much persons with those skills are paid in the local area for doing the same type of job,
- ◊ rates the school would normally pay similar non-FWS employees, and
- ◊ any applicable federal, state, or local laws that require a specific wage rate.

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis. For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing jobs comparable to those of other employees should be paid comparable wages, whether the other employees are students at different class levels or are regular employees.

DISBURSEMENT

Pay student at least monthly

A school must pay a student at least once a month. The federal share of FWS compensation must be paid by check or similar method[1] that the student can cash on his or her own endorsement. The school may not directly transfer the federal share to a student's account at the school, nor may it obtain a student's power of attorney to authorize any disbursement of funds unless the U.S. Department of Education has granted prior approval. The Department would not grant such a power of attorney (to allow a school to act on behalf of a student) unless the school could demonstrate that there is no one else (such as a relative, landlord, or member of the clergy, for example) who could act on behalf of the student.

If the school pays its share of FWS wages by **check**, it must pay the non-federal share to the student at the same time it pays the federal share. (See Section 5 of this chapter for a discussion of federal and institutional shares of FWS compensation.) FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving payment.

Noncash contribution

If the school pays its share of FWS wages for an award year in the form of a **noncash contribution** (tuition, fees, services, or equipment), it must do so before the final payroll period of the award year. If the school pays this share in the form of **prepaid** tuition, fees, services, or equipment, it must give the recipient—again, before the end of the final payroll period—a statement of the amount of the noncash contribution earned. (For more information on using noncash contributions as part of the school's share of FWS wages, see Section 5 of this chapter.)

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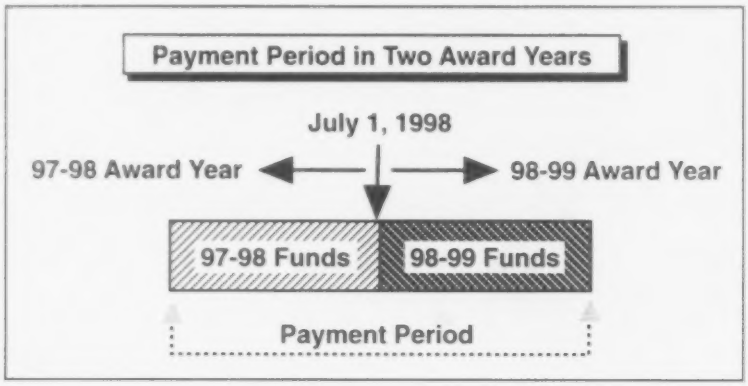
[1] For example, the school may pay the student with a draft or purchase order or electronic transfer to the student's bank account.

When a payment period is in two award years (that is, when it begins before and ends after July 1), the student is ordinarily paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. For example, for a payment period extending from June 15, 1998 to July 15, 1999, a student would ordinarily be paid with the school's 1997-98 allocation through June 30 (the end of the 1997-98 award year) and with the school's 1998-99 allocation beginning July 1, 1998 (the beginning of the 1998-99 award year).

Payment period crosses award years



A school may "carry back" funds for summer employment; that is, it may use any portion of its initial and supplemental FWS allocations for the current award year to pay student wages earned on or after May 15 of the previous award year but prior to the beginning of the current award year (July 1). For example, a school is authorized to carry back any portion of its funds allocated for the 1998-99 award year to pay FWS wages for summer employment between May 15, 1998 and June 30, 1998 (including both those dates).

May carry back funds for summer

A school may carry back funds for reasons other than to pay summer wages. A school is also allowed to use up to 10% of the next year's FWS initial and supplemental allocation at any time during the current award year. "Carrying forward" is also permitted. A school may carry forward up to 10% of its FWS initial and supplemental allocation for the current award year to the next award year.

10% carry back/carry forward funds to award year

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If the school carries forward funds from the current award year to the following award year, the expenditures are charged to the allocation for the current award year. If the school carries back funds from the next year to the current year, the expenditures are charged to the next award year.

Paying students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization. For audit and program review purposes, the school must have canceled checks in its files to show that students received payment in the amount charged to the FWS Program.

The school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other, similar payrolls at the school.

PAYROLL RECORDS

Schools must follow the recordkeeping requirements in 34 CFR 668.24 (discussed in Chapter 3, Section 7) and those in 34 CFR 675.19 (discussed below).

Separate FWS payroll

For reporting and control purposes, FWS expenditures must be distinguishable from other institutional expenditures. FWS compensation should either be entered on a separate voucher or, if listed on the general payroll voucher, should be grouped separately from other expenditures. If payrolls are handled on automatic data processing equipment, a special code for FWS payments should be used.

Payment records—34CFR 675.19

A school must establish and maintain program and fiscal records that are reconciled at least monthly. The records must include

- a certification that each student has worked and earned the amount being paid; the certification must be signed by the student's supervisor—an official of the school or off-campus agency; if the students are paid on an hourly basis, the certification must include or be supported by a time record showing the hours each student worked in clock time sequence, or the total hours worked per day;
- a payroll voucher containing sufficient information to support all payroll disbursements;
- a noncash contribution record to document any payment of the school's share of the student's earnings in the form of services and equipment.

Voucher contents

Payroll vouchers must support all payroll disbursements and should provide space for the following information:

- the school's name and address;
- the starting and ending dates of the payroll period;
- the student's name;
- an identification of the student's job;
- the number of hours worked during the pay period;
- the hourly rate of pay for an undergraduate student;
- the hourly rate of pay or salary for a graduate student;
- the student's gross earnings;
- any compensation withheld for federal, state, county, or city taxes, and other deductions;
- any noncash payments;
- the student's net earnings;
- a check number, duplicate receipt, or other payment identification; and
- any overtime earnings (a student may be paid overtime with FWS funds).

Recordkeeping requirements as they apply in general to all SFA programs are discussed in Chapter 3, Section 7. For information on how these requirements apply specifically to the campus-based programs, see Chapter 5, Section 3.

section 4 Types of Employment

Federal Work-Study (FWS) jobs may be on or off campus. Off-campus jobs must be in the public interest if the work is for a federal, state, or local public agency, or for a private nonprofit organization. However, a school may use part of its FWS allocation to provide jobs in private, for-profit organizations. All FWS jobs must, to the maximum extent practicable, complement and reinforce the student recipient's educational program or vocational goals.

COMMUNITY SERVICE JOBS

Community service requirement—34CFR 675.18(g)

Schools are required to make students aware of community service opportunities by encouraging them to get involved in community service activities. Schools are also required to utilize money from their FWS Program for that purpose. There is no restriction as to whether these jobs must be on or off campus. A university or college is not considered a community for the purposes of the FWS Program community service requirements. Also, private, for-profit organizations do not qualify as employers for community service under the FWS Program.

In determining whether the service is a community service, the school must always consider whether the service provided by the FWS student primarily benefits the community as opposed to the agency or school. Additional information on the community service component of the FWS Program is available in Dear Colleague Letter CB-94-4, dated March 1994 and in Dear Colleague Letter CB-97-12, dated July 1997.

A school must use at least 5% of its FWS allocation to employ students in community service jobs unless the U.S. Department of Education grants the school a waiver. The Department will approve a waiver only if the school requests one in writing and if the Department determines that the school has demonstrated that enforcing the requirement would cause hardship for students at the school.

According to the participation agreement (discussed in the introduction to Chapter 5) between a school and the Department, a school must

- ◊ allow employment under FWS to be used to assist programs providing supportive services to students with disabilities;
- ◊ inform all eligible students of the opportunity to perform community services; and
- ◊ consult with local nonprofit, governmental, and community-based organizations to identify community service opportunities.

Definition of community services—34CFR 675.2(b)

Community services are defined as services that are identified by an institution of higher education through formal or informal consultation with local nonprofit, governmental, and community-based organizations, as designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. These services include

- ◊ such fields as health care, child care, literacy training, education (including tutorial services), welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, and community improvement;
- ◊ work in service opportunities or youth corps as defined in Section 101 of the National and Community Service Act of 1990, and service in the agencies, institutions and activities designated in Section 124(a) of that act;[1]
- ◊ support for students (other than for an institution's own students) with disabilities; and

Serving as a mentor

- ◊ activities in which an FWS student serves as a mentor for such purposes as
  - tutoring (discussed on pages 7-23 to 7-26),
  - supporting educational and recreational activities, and
  - counseling, including career counseling.

[1] At the end of this section are definitions of the terms "service opportunity" and "youth corps program" (as defined in section 101 of the National and Community Service Act of 1990) and a list of agencies, institutions, and activities included in section 124(a) of that act.

Direct vs. indirect services

To be considered employed in a community service job for FWS purposes, an FWS student does not have to provide a "direct" service. The student must provide services that are designed to improve the quality of life for community residents or to solve particular problems related to those residents' needs. A school may use its discretion to determine what jobs provide indirect or direct service to the community.

The Department does not intend to indicate that certain activities are more important than others or that only jobs that have direct contact with community members are acceptable. For example, an FWS student working for a "meals on wheels" program may prepare meals for the program without having any direct contact with the community residents, yet the service he or she is providing is very important in meeting community needs.

Jobs that should take priority

In contacting potential community service agencies, schools should place a priority on jobs that will meet the human, educational, environmental, and public safety needs of low-income individuals. The Department has determined that at this time there is no need to burden schools with a formal definition of low-income individual for purposes of providing community service under the FWS Program. There is no statutory requirement that a particular number or proportion of the individuals must be low-income persons. Some examples of jobs that provide services to persons in the community who may **not** necessarily be low-income individuals are jobs that provide supportive services to students with disabilities or that prevent or control crime.

On-campus community service jobs

On-campus jobs can meet the definition of community services, provided that the services are open and accessible to the community and that they meet the regulatory and statutory provisions pertaining to the applicable FWS Program employment limitations and conditions. For example, it would be acceptable for an institution to set up services on the campus (e.g., tutoring centers or daycare centers) that are open to the community. If the institution sets up sites in the community and opens the services for the community, jobs at these sites would be acceptable. A service is considered open to the community if the service is publicized to the community and members of the community use the service.

ESTABLISHING FWS COMMUNITY SERVICE JOBS

In developing FWS community service jobs, a school might begin by

- ◊ determining which types of jobs meet the community services definition,
- ◊ determining if any of its current on-campus jobs meet the community services definition,

- ◊ determining if any of its current jobs with off-campus agencies meet the community services definition, and
- ◊ locating other potential employers.

Placing FWS recipients

To place FWS recipients in community service jobs, a school might begin by

- ◊ determining which FWS recipients would be interested in community service jobs (evaluating the FWS recipients by looking at their degree or certificate programs, interests, and skills) and
- ◊ determining the number of community service jobs it needs to locate.

Promoting community service jobs through public relations

To promote FWS community service jobs through public relations activities, a school might begin by

- ◊ devising a plan to market community services under the FWS Program to eligible student employers and the community,
- ◊ obtaining a listing of potential community service agencies,
- ◊ asking to be a presenter at various organizations' meetings,
- ◊ engaging in networking activities,
- ◊ holding and attending job fairs,
- ◊ hosting a financial aid office "open house," and
- ◊ visiting local agencies.

A school may also get help in developing FWS community service jobs through communication with colleagues at their own school, at other schools, or with other organizations. For example the school may

- ◊ communicate to the student placement office the community-service requirements under the FWS Program;
- ◊ talk to colleagues at institutions that participated in the expired Community Service Learning Program to get ideas on implementing, locating, and developing the community service jobs; and

- contact local nonprofit, governmental, and community-based organizations to assess their needs and determine what interest exists for employing FWS students.

AMERICA READS CHALLENGE

Schools are encouraged to place FWS students as reading tutors of preschool-age children and children in elementary school as part of the school's effort to support the America Reads Challenge (refer to Dear Colleague Letter CB-97-12, dated July 1997). This is an important way for schools to meet the community service expenditure requirement under the FWS Program, serve the needs of the community, and give the FWS students a rewarding and enriching experience. Tutoring does not have to be held in a school setting. It could, for example, take place at a public library or community center. The programs that provide this reading tutoring for children may take place during the children's school hours or after school, on weekends, or in the summer. The school may construct its own reading tutor program or become involved with existing community programs.

100% federal share

The Department will authorize a 100% federal share of the student's FWS wages if he or she is employed as a reading tutor of preschool-age children and children in elementary school and if the work performed by the student is for the school itself, for a federal, state, or local public agency, or for a private nonprofit organization. (The federal share of FWS wages is discussed in Section 5 of this chapter.) Tutoring may be one-on-one or in a group. Because the Department wants to provide schools with flexibility in determining the job description and duties of a reading tutor, we are not defining "reading tutor" for the FWS Program. An FWS student employed to read to a group of preschoolers in a public library, for example, would meet this requirement.

Definition of reading tutor

An FWS student employed as a reading tutor does not have to meet certain statutory or regulatory educational standards or qualifications for the school to receive an institutional-share waiver. However, an FWS reading tutor must have adequate reading skill, and the Department strongly recommends that the tutors be well trained before they tutor. When an FWS student receives training from a reading specialist or expert for sufficient duration and intensity, he or she is more likely to be successful with the child he or she is tutoring. Tutor training should emphasize the importance of the reading tutor's communicating with the regular classroom teacher to maximize effectiveness. Note that because the needs vary from child to child, the amount and type of training for reading tutors will often vary, depending on the child who is being tutored.

Preschool-age children

A preschool-age child is a child from infancy to the age at which his or her state provides elementary education. The definition of an elementary school varies from state to state. Because the Department does not wish to interfere with a state's determination of what constitutes children who are in elementary school, we will not provide guidance on the maximum grade level for elementary school for purposes of the institutional-share waiver for tutoring.

Tutoring in a parochial school

An FWS student can tutor a child in a parochial school under certain conditions:

- ◊ The parochial school must be classified as a private, nonprofit school by the Internal Revenue Service (IRS) or a state taxing body
- ◊ The work may not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction.
- ◊ The FWS reading tutor may not use religious material to tutor the child.

The Department does not require background checks of FWS reading tutors. However, some state and local jurisdictions may require such checks. The requirements will vary according to the agency or organization involved.

Using JLD to locate or develop reading tutor jobs

The Job Location and Development (JLD) Program may be used to locate or develop jobs for FWS students as reading tutors of children. However, using JLD funds to find jobs only for FWS students would not satisfy the JLD statutory requirement to expand off-campus jobs for currently enrolled students who want jobs regardless of their financial need.

An FWS reading tutor job might qualify for a waiver of the FWS institutional-share requirement but not qualify as part of the 5% community service requirement. If, for example, a postsecondary school employs FWS students to tutor young children in its daycare center and the only children in the center are those of the school's students, staff, and faculty, the job would qualify for the waiver, but because the daycare center would benefit only the school as opposed to the community, the job would not qualify as part of the 5% community service requirement.

Using the FISAP to show 100% federal share

A school is not required to ask the Department for a waiver of the FWS institutional-share requirement to receive the 100% federal share authorization for FWS students employed as reading tutors. Instead, the school should use 100% federal dollars to pay such a student and then show on its *Fiscal Operations Report and Application to Participate* (FISAP)

that it did so. There is no limit on the amount of funds a school can spend from its FWS allocation to pay FWS reading tutors. The Department plans to revise the FISAP to collect data on the number of FWS students employed as reading tutors of children, total earned compensation paid to these students, and the federal dollars spent for the compensation.

Training Tutors

Under limited circumstances, an FWS tutor can receive FWS wages while he or she is being trained, and these wages can qualify for an institutional-share waiver. This training period must be only for a reasonable and limited length of time. The Department would not consider a training period of an academic term to be reasonable. The Department would consider a reasonable training period to be one that occurs before the student begins tutoring and that does not exceed approximately 20 hours. A school may not pay an FWS student to take an academic course the school developed to provide classroom training on tutoring children to read. An FWS student may take such a course as long as he or she is not paid for taking the course.

The wages of an FWS student who is training reading tutors or who is performing administrative tasks related to supporting other people who are actually providing the reading tutoring do not qualify for a federal share of up to 100%; rather, an institutional share is required. A school may use a portion of its administrative cost allowance (ACA) to cover the costs of training an FWS reading tutor. A school may also use a portion of its ACA to cover expenses that are related to employing a student as a reading tutor with a local school district and that the school may not incur with another organization. If, for example, a school district requires all employees to undergo a background check and be fingerprinted at a cost of $40 per employee, the postsecondary school may use a portion of its ACA to cover this cost. The FWS Program does not provide for any additional funds beyond the ACA for technical assistance and training of reading tutors. See Section 5 of this chapter for a discussion of the ACA.

Time Spent on Activities Other Than Tutoring

The preparation time and evaluation time worked by an FWS reading tutor qualify for an institutional-share waiver as long as the time spent for this purpose is reasonable. For example, the Department would consider attending evaluation and preparation meetings once a week for approximately one hour to be reasonable. The Department wants to give some flexibility because of the value of evaluation and preparation time. However, the goal is to spend funds for FWS students to interact with the children, not for other activities.

Remember that it is the FWS reading tutor job, not the student working in the job, that qualifies for the institutional-share waiver. Thus, an FWS student who is working another FWS job in addition to the reading tutor job can be paid with 100% federal funds only for the time he or she is working as a tutor, not for time spent on the other job. If, for example, an FWS student spends only half of his or her time working as a reading tutor (including preparation and evaluation time) and the other half on non-tutoring tasks, the student may be paid 100% federal funds only for half the time and the other half must be paid with a maximum of 75% federal funds and a minimum of 25% nonfederal funds.

Documenting the Employment of FWS Reading Tutors

A postsecondary school must be able to identify the FWS students who performed tutoring. The school must also be able to provide the job description that demonstrates that these students worked as reading tutors of children, and the school must have records supporting the hours worked and the amount paid to the FWS reading tutors.

WORK ON CAMPUS

A student may be employed on campus at any type of postsecondary institution, including at a proprietary school. An FWS job at any school must, to the maximum extent practical, be related to the student's educational program or vocational goals.

Work for the school itself or for its contractors

A school, other than a proprietary school, may employ a student to work for the school itself, **including** certain services for which the school may contract, such as food service, cleaning, maintenance, and security. Work for the school's contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects the students and determines their pay rates. A proprietary school also may employ a student to work for the school itself with certain restrictions (discussed below under "Work for Proprietary School, On or Off Campus").

Work for a professor

At any **private nonprofit or public school**, an FWS student may be assigned to assist a professor if the student is doing work the school would normally support under its own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself. However, in a **proprietary school**, a student may not assist an instructor, as instructional activities are not considered student services.

Normally, employment in a foreign country is not permissible under the law. However, a school with a branch campus in a foreign country may employ students under FWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. government facility such as an embassy or a military base. A student may not be employed for a nonprofit organization in a foreign country.

Work in a branch campus overseas

WORK FOR PROPRIETARY SCHOOL ON OR OFF CAMPUS

A proprietary school may employ a student to work for the school itself but only in jobs that meet certain criteria:

Criteria to work for a proprietary school—34CFR 675.21(b)

1. If the jobs are in community service, they may be either on or off campus. Students employed by a proprietary school and performing community service do not have to furnish student services that are directly related to their education.

2. If the jobs are **not** in community service, they must be on campus and must

   - provide student services,
   - complement the student's educational program or vocational goals to the maximum extent possible, and
   - not involve soliciting potential students to enroll at the proprietary school.

The regulations define student services as services that are offered to students and that are directly related to the work-study student's training or education. For example, jobs that provide student services may include, but are not limited to, jobs in a financial aid office or library, peer guidance counseling, and jobs providing social and health services or tutorial services. However, work in the admissions or recruitment area of a school is not acceptable, as this employment could involve soliciting potential students. Maintenance (cleaning dorms) is not acceptable. In general, work that would primarily benefit the school rather than its students is not permissible. For example, a student may not work in the front reception area or in the business office of a school, as those jobs do not provide student services. As stated earlier, a student may not assist an instructor, as instructional activities are not considered student services.

Definition of student services—34CFR 675.2(b)

WORK OFF CAMPUS FOR NONPROFIT OR GOVERNMENT AGENCY

If a student is employed off campus by a federal, state, or local public agency[2] or by a private nonprofit organization, providing jobs related to

Work in the public interest

the student's academic or vocational goals is encouraged, but not required. However, the work performed **must be in the public interest**. Work in the public interest is defined as work performed for the welfare of the nation or community, rather than work performed for a particular interest or group.

A private nonprofit organization is one in which no part of the net earnings of the agency benefits any private shareholder or individual. An organization must be incorporated as nonprofit under federal or state law. A school classified as a tax-exempt organization by either the federal or state Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, daycare centers, halfway houses, crisis centers, and summer camps.

Nonprofit agencies do not qualify automatically as community service employers for purposes of the FWS Program because the work performed must meet the definition of community services in the regulations. A list of programs or activities that are recognized as appropriate work in community services under the FWS Program is included at the end of this section. In addition, work off campus for a nonprofit agency must be in the public interest.

Work not in the public interest

Work is not "in the public interest" if

- ◊ it primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;
- ◊ it involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- ◊ it is for an elected official unless the official is responsible for the **regular** administration of federal, state, or local government;
- ◊ it is work as a political aide for any elected official;
- ◊ a student's political support or party affiliation is taken into account in hiring him or her; or
- ◊ it involves lobbying on the federal, state, or local level.

However, in deciding whether work is in the public interest, schools must consider the nature of the work as well as that of the organization. For example, a student may be employed by a private nonprofit civic club if

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[2] Local public agencies include city or county government offices, public schools, community-owned hospitals, public libraries, and community centers.

the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, FWS employment is not in the public interest.

Political activity—partisan or nonpartisan

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, a student is not considered to be working in the public interest if working at voting polls—even if he or she only checks off the names of those who came to vote and does not pass out flyers supporting a particular candidate. Also, a student is not considered to be working in the public interest if working to support an independent candidate. Another example of nonpartisan political activity is work for a city that is sponsoring political debates.

Political aide

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Under certain circumstances, work for an elected official responsible for the **regular administration** of federal, state, or local government may be considered to be in the public interest. "Regular administration" means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (because he or she has direct responsibility for the judicial system). As stated above, any **political** activity would not be acceptable—raising funds for the official's reelection, for example. An FWS position that involves lobbying at the federal, state, or local level is not work in the public interest.

Work for the Department

FWS students are prohibited from working for the Department due to the potential appearance of conflict of interest.

WORK OFF CAMPUS FOR PRIVATE FOR-PROFIT COMPANIES

Job must be academically relevant

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant to the student's program of study. (A student studying for a business administration degree could work in a bank

handling customer transactions, for example.) Private for-profit organizations do not qualify as employers for community service under the FWS Program.

A school may use up to 25% of its FWS allocation and reallocation for an award year to pay the wages of FWS students employed by private for-profit organizations, but the organizations may not hire FWS employees to replace regular employees.

For-profit organization pays 50% of wages

The federal share of FWS wages for students employed by private for-profit organizations is limited to 50%. The for-profit organization must contribute the remaining 50%, plus employer taxes (such as FICA, unemployment, and Workers' Compensation).

OFF-CAMPUS AGREEMENTS

When a school enters into a written agreement—a contract—with any off-campus agency or company that employs FWS students, the school must make sure the organization is a reliable agency with professional direction and staff and that the work to be performed is adequately supervised and consistent with the purpose of the FWS Program. (See the Appendix at the end of this chapter for a model off-campus agreement. The sample need not be followed exactly but serves as a guide.)

The agreement sets forth the FWS work conditions and establishes whether the school or the agency/company will be the employer for such purposes as hiring and firing, or paying the nonfederal share of the student's wages or the student's Social Security or Workers' Compensation benefits. The employer is generally considered to be the organization that will control the work of the FWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure that payment for work performed is properly documented and that each student's work is properly supervised.

Liability for on-the-job injuries

The agreement must also state which organization—the school or off-campus employer—is liable for any on-the-job injuries to the student. The **employer is not** automatically liable. Federal FWS funds cannot be used to pay an injured student's hospital expenses.

Payroll responsibility

The agreement should also define whether the agency/company will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the agency/company for its contribution. The school must make up any payments the agency/company does not make. It is the school's responsibility to ensure that FWS payments are properly documented, even if the agency/company does the payroll. To fulfill that responsibility,

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the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually copies of the canceled checks or receipts signed by the students).

Supervising and evaluating off-campus employment

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school may also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school is responsible for supplying this information.

FWS EMPLOYMENT DURING PERIOD OF NONATTENDANCE

A student may be employed under FWS during a period of nonattendance, such as a summer or equivalent vacation period or the full-time work period of a cooperative education program. To be eligible for this employment, a student must be planning to enroll (or to reenroll) for the next regular session. The student's earnings during this period of nonattendance (earnings minus taxes and job-related costs) must be used to pay his or her cost of attendance for the next period of enrollment.

Documenting student's intent to reenroll

A student whose eligibility for summer FWS employment was based on anticipated enrollment in the subsequent term may fail to register or may decide to attend another school. When a student fails to register for the subsequent term, the school that employed the student must be able to demonstrate that the student was eligible for employment and that the school had reason to believe the student intended to study at that school in the next term. At minimum, the school that employed the student must keep a written record in its files showing that the student had accepted the school's offer of admittance in the upcoming session.

Study abroad

A student in an eligible program of study abroad may be employed during the summer preceding the study abroad if he or she will be continuously enrolled in his or her American school while abroad and if the student's study is part of the American school's own program. In such a case, a student may be employed in a qualified position in the United

States, at the American school's branch campus in a foreign country, at a U.S. government facility abroad, or in an American company abroad.

TERMS USED IN THE DEFINITION OF COMMUNITY SERVICES

The definition of community services (see page 7-20) includes the terms "service opportunity" and "youth corps program." Section 101 of the National and Community Service Act of 1990 defines the terms as follows:

- **Service opportunity**. A program or project, including a service learning program or project, that enables students or out-of-school youth to perform meaningful and constructive service in agencies, institutions, and situations where the application of human talent and dedication may help to meet human, educational, linguistic, and environmental community needs, especially those relating to poverty.

- **Youth corps program**. A program, such as a conservation corps or youth service program, that offers full-time, productive work (to be financed through stipends) with visible community benefits in a natural resource or human service setting and that gives participants a mix of work experience, basic and life skills, education, training, and support services.

LIST OF AGENCIES, INSTITUTIONS, AND ACTIVITIES INCLUDED IN THE DEFINITION OF COMMUNITY SERVICES

The definition of "community services" includes service in agencies, institutions, and activities that are designated in Section 124(a) of the National and Community Service Act of 1990:

1. Conservation corps programs that focus on

   - conservation, rehabilitation, and the improvement of wildlife habitat, rangelands, parks, and recreation areas;

   - urban and rural revitalization, historical and site preservation, and reforestation of both urban and rural areas;

   - fish culture, wildlife habitat maintenance and improvement, and other fishery assistance;

   - road and trail maintenance and improvement;

- erosion, flood, drought, and storm damage assistance and controls;
- stream, lake, waterfront harbor, and port improvement;
- wetlands protection and pollution control;
- insect, disease, rodent, and fire prevention and control;
- the improvement of abandoned railroad beds and rights-of-way;
- energy conservation projects, renewable resource enhancement, and recovery of biomass;
- reclamation and improvement of strip-mined land;
- forestry, nursery, and cultural operations; and
- making public facilities accessible to individuals with disabilities.

2. Human services corps programs that include service in
   - state, local, and regional governmental agencies;
   - nursing homes, hospices, senior centers, hospitals, local libraries, parks, recreational facilities, child and adult daycare centers, programs serving individuals with disabilities, and schools;
   - law enforcement agencies and penal and probation systems;
   - private nonprofit organizations that primarily focus on social service such as community action agencies;
   - activities that focus on the rehabilitation or improvement of public facilities, neighborhood improvements, literacy training that benefits educationally disadvantaged individuals, weatherization of and basic repairs to low-income housing including housing occupied by older adults, energy conservation (including solar energy techniques), removal of architectural barriers to access by individuals with disabilities to public facilities, activities that focus on drug and alcohol abuse education, prevention and treatment, and conservation, maintenance, or restoration of natural resources on publicly held lands; and

- any other nonpartisan civic activities and services that the commission determines to be of a substantial social benefit in meeting unmet human, educational, or environmental needs (particularly needs related to poverty) or in the community where volunteer service is to be performed; or

3. Programs that encompass the focus and services described in both paragraphs (1) and (2).

Section 5 Program Funds

Specific information on funding for the Federal Work-Study (FWS) Program for the 1998-99 award year was not available at the time this handbook went to print. The Department will inform schools of the 1998-99 funding at a later date, in the form of a Dear Colleague letter or an Action Letter. Up-to-date funding information will also be available on the SFA BBS.

Funding for the Federal Work-Study (FWS) Program for the 1997-98 award year was increased to $830 million by the Omnibus Consolidated Appropriations Act (P.L. 104-208). This amount represents an increase of $213.5 million over the 1996-97 FWS funding level of $616.5 million. To encourage schools to use the increased funds for community service, with emphasis on employment of FWS recipients as reading tutors, the Department amended the FWS regulations by adding 34 CFR 675.26(d)(2), which authorizes payment of a 100% federal share of the wages of a student employed as a reading tutor for children who are in preschool through elementary school (refer to the **Federal Register** printed November 27, 1996—Part IV); the work performed by the student must be for the school itself, for a federal, state, or local public agency, or for a private nonprofit organization. (Community service jobs are discussed in Section 4 of this chapter, and federal share requirements are discussed on pages 7-38 and 7-39.) This regulatory change will provide schools with the flexibility needed to respond to the "America Reads Challenge," which will mobilize resources to ensure that all children can read independently by the end of the third grade. The America Reads Challenge is also discussed in Section 4 of this chapter.

100% Federal share authorized for FWS job as reading tutor—34CFR 675.26(d)(2)

Schools were notified of the increase in funding for the FWS Program in Dear Colleague Letter CB-96-22, dated November 1996. The letter, in advance of the tentative 1997-98 funding level notice, provided each school with an estimate of its increased funding level for the 1997-98 award year, based on the increased FWS appropriation and on the allocation formula in the law; however, the school could receive increased FWS funding only if the school requested such funding. As schools were not aware of the increased funding level when they submitted their 1997-98 *Fiscal Operations Reports and Applications to Participate* (FISAPs), the letter to each school provided instructions for increasing the amount of FWS funds

requested for 1997-98. The Department provided schools with as much time as possible to do the planning and development necessary to match and spend any increased FWS allocation for the 1997-98 award year.

ALLOCATION AND REALLOCATION

The Higher Education Act of 1965, as amended, describes the allocation process in detail; the procedures are not repeated in the regulations for the FWS Program. FWS funds are allocated directly to schools according to the statutory formulas in section 442 of the Act. (See Chapter 5, Introduction.)

All federal funds a school receives as part of its FWS allocation must be held in trust for the students who are the intended beneficiaries under the FWS Program with the exception of funds the school receives for the administrative cost allowance (ACA) and for certain activities under the Job Location and Development (JLD) Program. (See Section 6.) The funds may not be used for, or serve as collateral for, any other purpose.

Transfer of funds to FSEOG— 34CFR 676.18

A school may transfer up to 25% of its FWS allocation, as well as 25% of its Federal Perkins Loan federal capital contribution (FCC) allocation, **to** the Federal Supplemental Educational Opportunity Grant (FSEOG) Program. The FSEOG regulations prohibit the transfer of funds **from** the FSEOG Program to any other program. However, a school that transfers funds from the FWS Program **to** the FSEOG Program during an award year must transfer any unexpended FWS funds **back** to the FWS Program at the end of the award year. (For more information, see page 7-41.)

Reduction of allocation due to returned funds— 34CFR 673.4(d)(3)

If a school returns more than 10% of its FWS allocation for an award year, the school's allocation for the second succeeding award year will be reduced by the dollar amount returned, unless the Department waives this provision. The Department may do so for a specific school if the Department finds that enforcement would be contrary to the interests of the program. The Department considers enforcement to be contrary to the interest of the program only if the school returned more than 10% of its allocation due to circumstances that are beyond the school's control and are not expected to recur. (See Chapter 5, Introduction.)

Under the provisions of the Higher Education Amendments of 1992, unexpended funds returned to the Department will be reallocated to eligible schools that used at least 10% of their total FWS allocation to pay students employed in community service activities. A school must request the reallocated FWS funds, and the school must have a fair-share shortfall to receive these funds. Refer to Dear Colleague Letter CB-96-11, dated June 1996.) A school must use all the reallocated funds and must use them only to pay students in community service jobs.

A school must use at least 5% of its FWS initial and supplemental allocations for an award year to pay the federal share of wages to students employed in community service jobs unless the Department approves a waiver. The school may request a waiver of the 5% community service requirement in writing. However, the Department will approve a waiver only if it determines that the school has demonstrated that enforcing the requirement would cause hardship for the students at the school.

5% of funds for community service jobs—34CFR 675.18(h)

To request a waiver for the 1998-99 award year, schools must send a waiver request and any supporting information or documents to the Department by the deadline the Department establishes. In early 1998, the Department will send schools a Dear Colleague letter announcing this deadline. The waiver request must be signed by an appropriate school official and above the signature, the official must include this statement: "I certify that the information the institution provided in this waiver request is true and accurate to the best of my knowledge. I understand that the information is subject to audit and program review by representatives of the Secretary of Education." If a financial aid administrator has any questions regarding the FWS community service expenditure requirements or waiver procedures, he or she may contact the school's campus-based programs Financial Management Specialist in the Institutional Financial Management Division of the Department; a list of state specialists is included in Chapter 1, Section 2 of this Handbook.

Request for waiver

FWS community service expenditures for the 1997-98 award year will be reported on the *Fiscal Operations Report and Application to Participate* (FISAP) a school receives in July 1998, as that FISAP is the one the school will use to report its 1997-98 program expenditures.

When a school receives reallocated FWS funds, the minimum amount of FWS federal funds the school must expend on community service jobs is the greater of the following two amounts:

- ◊ 5% of the total FWS allocation
- ◊ 100% of the amount of the reallocated FWS funds

If a school's FWS allocation is based in part on the financial need of less-than-full-time or independent students and if the need of all of these students exceeds 5% of the total need of all students at the school, the school must **offer** those students at least 5% of its FWS allocation. (This provision is in discussed in Chapter 5, Section 1.)

FWS funds for less-than-full-time or independent students—34CFR 675.10

An approved school may use part of its FWS allocation for the purpose of meeting the costs of the new Work-Colleges Program discussed in the introduction to this chapter.

Exceptions to the 75% limitation—34CFR 675.26(a)

The federal share of FWS wages paid to a student may not exceed 75%, with the following exceptions:

- The federal share of FWS wages to a student employed by a **private for-profit** organization may not exceed 50%.

100% Federal share for reading tutors in FWS—34CFR 675.26(d)(2)

- The Department authorizes a 100% federal share of FWS wages earned by a student who is employed as a reading tutor for children who are in preschool through elementary school; the work performed by the student must be for the school itself, for a federal, state or local agency, or for a private nonprofit organization. A school is not required to ask the Department for a waiver of the FWS nonfederal share requirement to receive the 100% federal share authorization for an FWS student employed as a reading tutor. Instead, the school should use 100% federal dollars to pay such a student and then show on its FISAP that it did so. All schools are encouraged to place FWS students as reading tutors for children as an important way to meet the FWS community service expenditure requirement. A discussion of employing FWS students as reading tutors is in Section 4 of this Chapter.

100% Federal share for eligible schools

- The Department may authorize a federal share of 100% of FWS wages at schools designated as eligible schools under the Strengthening Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Strengthening Historically Black Graduate Institutions Program. The school must request the increased federal share for an award year on the FISAP for that year, and the work performed by the student must be for the school itself, for a federal state or local public agency, or for a private nonprofit organization.

The federal share may be lower than 75% if the school chooses to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment.

Restrictions on the use of the federal share

The federal share may **not** be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay or employer's contributions to Social Security, Workers' Compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

The federal share limitation does not affect federal agencies that want to enter an off-campus FWS job agreement. They may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

The federal share of allowable costs in carrying out the JLD Program may not exceed 80% of such costs. (See Section 6 of this chapter.)

NONFEDERAL SHARE

Exceptions to 25% minimum

The nonfederal share of a student's FWS wages must be at least 25% for 1993-94 and subsequent award years, with the following exceptions:

- The nonfederal share of FWS wages must be at least 50% in the case of work for **private for-profit** organizations; the 50% nonfederal share is not subject to waiver.

- The Department provides a waiver of the FWS institutional-share requirement for FWS wages earned by a student who is employed as a reading tutor for children who are in preschool through elementary school. As stated previously, a school is not required to ask the Department for a waiver of the FWS nonfederal share requirement to receive the 100% federal share authorization for FWS students employed as reading tutors. (For more information on employing FWS students as reading tutors, see Section 4 of this chapter).

Waiver of institutional share

- The Department may grant a waiver of the FWS institutional-share requirement to a school that is designated as an eligible institution under the Strengthening Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Historically Black Graduate Institutions Program if the designated institution requests a waiver.

If the Department grants a waiver, the school to which the waiver is granted has the **option** of providing an institutional share and determining the amount of the share. The school, however, must provide the proper federal and institutional shares for any portion of its FWS allocation that it expends under the provisions governing student employment provided by a private for-profit organization (50% federal-share limitation) or for the administration of the JLD Program (80% federal-share limitation). The institutional-share requirement for these two categories of FWS expenditures may not be waived.

A school may use any resource available to pay its share of FWS compensation except federal funds allocated under the FWS Program. The

school's share may come from its own funds, from outside funds (such as from an off-campus agency), or from both.

Using a noncash contribution to pay institutional share

The school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. If the school's share for the award period is paid by noncash contributions, the share must be paid before the end of the student's final payroll period.

Costs off-campus agency pays

The school must document all amounts claimed as noncash contributions. If a school has assessed a charge against a student who is employed under FWS (such as a parking fine or library fine), the school may not include forgiveness of such a charge as part of the school's noncash contribution for the student.

Excess funds from off-campus agency

Any FWS employment agreement a school may have with an off-campus agency should specify what share of student compensation and what other costs the agency will pay. The agreement between the school and a for-profit organization **must** require the employer to pay the nonfederal share of student earnings. The agreement between the school and an employing agency or nonprofit organization **may** require the employer to pay

- the nonfederal share of student earnings;
- required employer costs, such as the employer's share of Social Security or Workers' Compensation; and
- the school's administrative costs not already paid from its ACA.

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school's nonfederal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

- use it to reduce the federal share on a dollar-for-dollar basis;
- hold it in trust for off-campus employment during the next award year; or
- refund it to the off-campus employer.

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to

pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

As discussed at the beginning of this section, with three exceptions, the federal share of FWS wages cannot exceed 75%. If the school's noncash contribution is less than the remaining 25%, the school must make up the difference in cash.

CARRY FORWARD/CARRY BACK

Reporting carried forward funds

A school may spend up to 10% of its current year's FWS allocation (initial and supplemental) in the **following** award year (carry forward). If the school carried forward funds to be spent in the following award year, the school must report that amount on the FISAP. For example, if a school carried forward 10% of its FWS 1997-98 allocation to be spent in 1998-99, the school must report this amount on the October 1998 FISAP, in Part V of the Fiscal Operations Report for 1997-98. Before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.

Spending current year funds on previous year's costs

A school is also permitted to spend up to 10% of its current year's FWS allocation (initial and supplemental) for expenses incurred in the **previous** award year. The official allocation letter for a specific award period is the school's authority to exercise this option.

As stated in Section 3 of this chapter, a school is authorized to make payments to students for services performed on or after May 15 of the previous award year but prior to the beginning of the current award year (that is, for summer employment) from the current award year's allocation. This "carry-back" authority is in addition to the previous authority to carry back 10% of the current year's allocation for use at any time during the previous award year.

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LIMITATIONS ON USE OF FUNDS CARRIED FORWARD OR BACK

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percentage of available funds that may be used in that award year for any of the purposes listed below:

- ◊ the transferring of FWS funds to FSEOG,
- ◊ providing the federal share of wages in private for-profit sector jobs, or
- ◊ the JLD Program.

For example, for the 1998-99 award year, schools may not add to the 1998-99 total FWS allocation any FWS funds carried forward into 1998-99 from 1997-98 or carried back into 1998-99 from 1999-2000 when determining the maximum percentage of available funds that may be used in 1998-99 for the purposes listed above. The maximum amount usable for each of the three purposes listed in the previous paragraph is the appropriate percentage of a school's total 1998-99 original FWS allocation plus any supplemental 1998-99 FWS allocation.

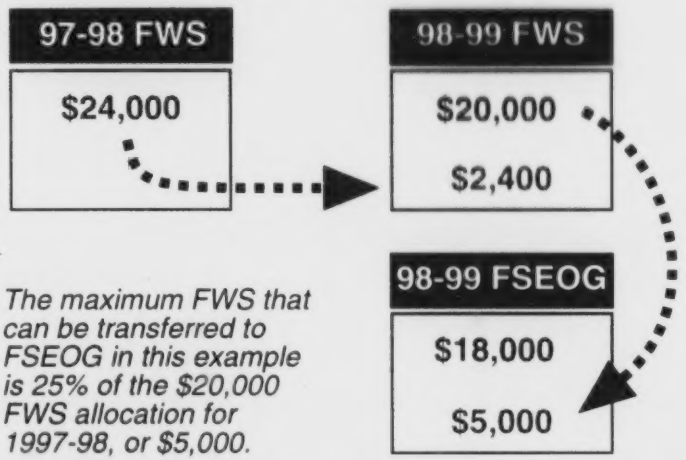
TRANSFER OF FUNDS TO THE FSEOG PROGRAM

25% maximum to FSEOG— 34CFR 676.18(c)

A school may transfer up to 25% of its total FWS allocation (initial and supplemental) to the FSEOG Program. The Department's permission is not required. Note that this total FWS allocation for an award year does not include FWS funds carried forward or carried back into the award year from other award years (see the example that follows). The school must report any transfer of FWS funds to FSEOG as an expenditure on its FWS *Fiscal Operations Report*. However, a school that transfers funds to the FSEOG Program from the FWS Program during an award year must transfer any unexpended FWS funds **back** to the FWS Program at the end of the award year.

EXAMPLE

Oasis Junior College has received a total (initial and supplemental) FWS allocation of $24,000 for the 1997-98 award year, and $20,000 for the 1998-99 award year. The financial aid administrator has carried forward $2,400 of the 1997-98 FWS allocation into the 1998-99 award year, and now would like to transfer 25% of her 1998-99 FWS allocation into the 1998-99 FSEOG account. What is the maximum amount that can be transferred?



The maximum FWS that can be transferred to FSEOG in this example is 25% of the $20,000 FWS allocation for 1997-98, or $5,000.

ADMINISTRATIVE COST ALLOWANCE (ACA)

As discussed in Chapter 5, Section 3, a school participating in the FWS Program is entitled to an ACA if it provides FWS employment to its student in that award year. The allowance may be used to help offset administrative costs such as salaries, furniture, travel, supplies, and equipment. The formula a school uses to calculate its total ACA for the campus-based programs is on page 5-20.

A school may use up to 10% of the ACA attributable to the school's FWS Program expenditures to pay administrative costs of conducting its community service program. These costs may include the costs of

Paying administrative costs of conducting a community service program—34CFR 673.7(f)

- ◊ developing mechanisms to ensure the academic quality of a student's experience;
- ◊ ensuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- ◊ collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990, in the planning, development, and administration of these programs.

The cash management requirements that apply in general to SFA programs (those in the General Provisions) are discussed in Chapter 3, Section 3. The cash management requirements specific to the campus-based programs (those in the FWS, FSEOG, and Perkins Loan regulations) are discussed in Chapter 5, Section 3.

Recordkeeping Requirements—34CFR 668.24 and 34CFR 675.19

A school must follow the recordkeeping requirements in the General Provisions and those in the FWS regulations. The recordkeeping requirements that apply in general to SFA programs (those in the General Provisions) are discussed in Chapter 3, Section 7. The recordkeeping requirements specific to the campus-based programs (those in the FWS, FSEOG, and Perkins Loan regulations) are discussed in Chapter 5, Section 3. Information on FWS payroll records is provided in Section 3 of this chapter.

In addition to following the fiscal procedures and records requirements mentioned in Chapter 3, Sections 3 and 7, in Chapter 5, Section 3, and in Section 3 of this chapter, a school must meet the following requirements, which are included in the FWS regulations

- The school must establish and maintain an internal control system of checks and balances that insures that no office can both authorize FWS payments and disburse FWS funds to students.
- If the school uses a fiscal agent for FWS funds, that agent may perform only ministerial acts.
- Each year the school must submit a Fiscal Operations Report and other information the Department requires. The information must be accurate and must be provided on the form and at the time the Department specifies.

Section 6 Job Location and Development

The Job Location and Development (JLD) Program expands off-campus job opportunities for students who are enrolled in eligible institutions of higher education and who want jobs **regardless of financial need**. This means that jobs may be located and developed under the JLD Program for FWS and non-FWS eligible students. The JLD Program encourages students to participate in community service activities.

Jobs are for FWS and non-FWS students—34CFR 675.31

JLD community service jobs are designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to the needs of community residents. Community services are those the school has identified by working with local nonprofit, governmental, and community-based organizations. Appropriate jobs are those in fields such as health care; child care; literacy training; education (including tutorial services); housing and neighborhood improvement; rural development; and community improvement and jobs that provide supportive services to students with disabilities. A school must inform all eligible students of the opportunity to perform community services and must develop and make available information about community service opportunities.

Purpose of JLD community service jobs

JLD PROGRAM PARTICIPATION

A school that participates in the FWS Program is also eligible to participate in the JLD Program. A school that has an executed Program Participation Agreement (PPA) for the FWS Program is able to participate in the JLD Program without any prior contact with the U.S. Department of Education and without any revision to its PPA. The school under the PPA agrees to administer the JLD Program according to the appropriate statutory and regulatory provisions.

If the Department terminates or suspends a school's eligibility to participate in the FWS Program, that action also applies to the school's JLD Program. Additional information about termination and suspension is included in 34 CFR 675.37.

Termination and suspension

STUDENT ELIGIBILITY

Any student employed in a job developed under the JLD Program must be currently enrolled at the school placing him or her in a job. A school may place in JLD jobs both students who do **not** meet FWS student eligibility criteria **and** those who do meet that criteria. However, using JLD funds to find jobs only for FWS students would not satisfy the program purpose of expanding off-campus jobs for students who want jobs regardless of financial need.

USE OF FWS ALLOCATION FOR JLD PROGRAM

Jobs located or developed under the JLD Program may be for either a profit or nonprofit employer. When establishing or expanding a program to locate and develop off-campus jobs, **including community service jobs**, a school may use **up to the lesser** of the following two amounts:

- ◊ 10% of its FWS allocation and reallocation
- ◊ $50,000

USE OF JLD PROGRAM FUNDS

Paying the student

Federal JLD funds are used to pay a school's costs of establishing and administering the JLD Program. The JLD funds are not to be used to pay students whose jobs were located or developed through the JLD Program. A job located and developed under the program must be suitable to the scheduling and other needs of the employed student and must, to the maximum extent practicable, complement and reinforce the educational program or vocational goal of the student.

Restrictions on using JLD funds

A school is expected to generate total student wages exceeding the total amount of the federal funds spent under JLD. The school cannot locate or develop jobs at the school or other eligible schools. JLD jobs may be full time or part time. Jobs located or developed under the program must not displace employees or impair existing service contracts. The purpose of the JLD Program is to locate and develop off-campus jobs for students during and between periods of attendance, not to develop jobs for placement upon graduation.

FEDERAL SHARE LIMITATION

Federal share

The federal funds that a school sets aside from its FWS allocation to be used for JLD activities may be used to pay up to 80% of the allowable costs (listed below). The school must provide the remaining 20% of allowable costs either in cash or in services. This requirement, unlike the institutional

share requirement for FWS earnings, cannot be waived. The school must maintain records that indicate the amount and sources of its matching share. Procedures and records requirements for JLD are the same as those for all campus-based programs. (See Chapter 5, Section 3.)

Institutional share

ALLOWABLE PROGRAM COSTS

Allowable costs of carrying out the JLD Program include

- ◊ staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the FWS Program);
- ◊ travel expenses related to JLD activities;
- ◊ printing and mailing costs for brochures about the JLD Program;
- ◊ JLD telephone charges, including installation of a separate line for off-campus employers;
- ◊ JLD costs for supplies, equipment, and furniture;
- ◊ newspaper or other types of advertising that inform potential employers of the services JLD offers; and
- ◊ JLD workshops for students and employers.

Costs that are not allowable are costs related to purchasing, constructing, or altering the facilities that house a JLD project. Indirect administrative costs also are not allowable. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the program—the JLD director's supervisor, for example.

Costs not allowed

FWS STUDENTS AS STAFF IN THE JLD PROGRAM

A school may assign an FWS or a non-FWS student to work as a staff member in the JLD Program, as long as the student is not employed under the JLD Program. The prohibition against using JLD funds to locate and develop jobs at any school prevents a school from employing a JLD student (whether he or she is also an FWS student or not) to work as staff in the JLD Program. This prohibition does not, however, mean that the school is also prohibited from employing any student (FWS or non-FWS) to work as staff in the JLD Program. Student jobs as staff in the JLD Program are not located and developed with JLD funds, and the student wages earned working for the JLD Program are not reportable in the JLD section of the *Fiscal Operations Report and Application to Participate* (FISAP).

If a school places an FWS student as staff in the JLD Program, there are some important points to note. The statute and the FWS regulations prohibit the use of any funds allocated under the FWS Program from being used to pay the nonfederal share of FWS compensation to its students. Hence, the federal JLD funds may not be used to pay the nonfederal share of FWS wages earned by a student working as staff in the JLD Program. However, because JLD allowable costs include staff salaries, the school would use its own funds to pay the nonfederal share of the wages earned by an FWS student working as staff in the JLD Program and would count those funds in meeting the minimum 20% institutional share requirement.

JLD REPORTING ON THE FISAP

A school participating in the JLD Program must provide information on the FISAP concerning the uses of the JLD funds and an evaluation of the effectiveness of the JLD Program. The school reports in Part V, Section D of the FISAP the federal expenditures for JLD. In Part V, Section G, the school reports the total JLD expenditures, institutional expenditures for JLD, number of students for whom jobs were located or developed, and total earnings for the students.

MULTI-INSTITUTIONAL JLD PROGRAMS

Agreement with other eligible schools—34CFR 675.34

A school that is participating in FWS may enter a written agreement with other eligible schools for those schools to establish and to operate a JLD Program for its students. The agreement must designate the administrator of the program and must specify the terms, conditions, and performance standards of the program. Each school that is part of the agreement retains responsibility for properly disbursing and accounting for the federal funds it contributes under the agreement.

For example, each school must show that its own students have earned wages that exceed the amount of federal funds the school contributed to locate and develop those jobs. This fiscal information must be reported on each school's *Fiscal Operations Report and Application to Participate* (FISAP).

If a school uses federal funds to contract with another school, suitable performance standards must be part of that contract. Performance standards should reflect each school's philosophy, policies, and goals for the JLD Program. A school may **not** develop performance standards, conditions, or terms that are inconsistent with the statute or regulations. In all cases, the performance standards should be clearly understandable, because they will be included in the formal written agreement that each party must observe as part of its responsibility within the particular arrangement.

Appendix:

Model Off-Campus Agreement

The paragraphs below are suggested as models for the development of a written agreement between a school and a federal, state, or local public agency or a private nonprofit organization that employs students who are attending that school and who are participating in the Federal Work-Study (FWS) Program. Institutions and agencies or organization may devise additional or substitute paragraphs as long as they are not inconsistent with the statute or regulations.

This agreement is entered into between _____, hereinafter known as the "Institution," and _____, hereinafter known as the "Organization," a (Federal, State, or local public agency), (private nonprofit organization), (strike one), for the purpose of providing work to students eligible for the Federal Work-Study Program [FWS].

Schedules to be attached to this agreement from time to time must be signed by an authorized official of the institution and the organization and must set forth—

(1) brief descriptions of the work to be performed by students under this agreement;

(2) the total number of students to be employed;

(3) the hourly rates of pay, and

(4) the average number of hours per week each student will be used.

These schedules will also state the total length of time the project is expected to run, the total percent, if any, of student compensation that the organization will pay to the institution, and the total percent, if any, of the cost of employer's payroll contribution to be borne by the organization. The institution will inform the organization of the maximum number of hours per week a student may work.

Students will be made available to the organization by the institution to perform specific work assignments. Students may be removed from work on a particular assignment or from the organization by the institution, either on its own initiative or at the request of the organization. The organization agrees that no student will be denied work or subjected to different treatment under this agreement on the grounds of race, color, national origin, or sex. It further agrees that it will comply with the provisions of the Civil Rights Act of 1964 (Pub. L. 88-352; 78 Stat. 252) and Title IX of the Education Amendments of 1972 (Pub. L. 92-318) and the Regulations of the Department of Education which implement those Acts.

(Where appropriate any of the following three paragraphs or other provisions may be included.)

(1) Transportation for students to and from their work assignments will be provided by the organization at its own expense and in a manner acceptable to the institution.

(2) Transportation for students to and from their work assignments will be provided by the institution at its own expense.

(3) Transportation for students to and from their work assignments will not be provided by either the institution or the organization.

(Whether the institution or the organization will be considered the employer of the students covered under the agreement depends upon the specific arrangement as to the type of supervision exercised by the organization. It is advisable to include some provision to indicate the intent of the parties as to who is considered the employer. As appropriate, one of the following two paragraphs may be included.)[1]

(1) The institution is considered the employer for purposes of this agreement. It has the ultimate right to control and direct the services of the students for the organization. It also has the responsibility to determine whether the students meet the eligibility requirements for employment under the Federal Work-Study program, to assign students to work for the organization, and to determine that the students do perform their work in fact. The organization's right is limited to direction of the details and means by which the result is to be accomplished.

(2) The organization is considered the employer for purposes of this agreement. It has the right to control and direct the services of the students, not only as to the result to be accomplished, but also as to the means by which the result is to be accomplished. The institution is limited to determining whether the students meet the eligibility requirements for employment under the Federal Work-Study program, to assigning students to work for the organization, and to determining that the students do perform their work in fact.

(Wording of the following nature may be included, as appropriate, to locate responsibility for payroll disbursements and payment of employers' payroll contributions.)

Compensation of students for work performed on a project under this agreement will be disbursed—and all payments due as an employer's contribution under State or local workers' compensation laws, under Federal or State social security laws, or under other applicable laws, will be made—by the (organization) (institution) (strike one).

(Where appropriate any of the following paragraphs may be included.)

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[1] Although the following paragraphs attempt to fix the identity of the employer, they will not necessarily be determinative if the actual facts indicate otherwise. Additional wording that specifies the employer's responsibility in case of injury on the job may also be advisable, since federal funds are not available to pay for hospital expenses or claims in case of injury on the job. In this connection it may be of interest that one or more insurance firms in at least one state have in the past been willing to write a workers' compensation insurance policy which covers a student's injury on the job regardless of whether it is the institution or the organization that is ultimately determined to have been the student's employer when he or she was injured.

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(1) At times agreed upon in writing, the organization will pay to the institution an amount calculated to cover the organization's share of the compensation of students employed under this agreement.

(2) In addition to the payment specified in paragraph (1) above, at times agreed upon in writing, the organization will pay, by way of reimbursement to the institution, or in advance, an amount equal to any and all payments required to be made by the institution under State or local workers' compensation laws, or under Federal or State social security laws, or under any other applicable laws, on account of students participating in projects under this agreement.

(3) At times agreed upon in writing, the institution will pay to the organization an amount calculated to cover the Federal share of the compensation of students employed under this agreement and paid by the organization. Under this arrangement the organization will furnish to the institution for each payroll period the following records for review and retention:

(a) Time reports indicating the total hours worked each week in clock time sequence and containing the supervisor's certification as to the accuracy of the hours reported;

(b) A payroll form identifying the period of work, the name of each student, each student's hourly wage rate, the number of hours each student worked, each student's gross pay, all deductions and net earnings, and the total Federal share applicable to each payroll;[2] and

(c) Documentary evidence that students received payment for their work, such as photographic copies of canceled checks.

[2] These forms, when accepted, must be countersigned by the institution as to hours worked as well as to the accuracy of the total federal share which is to be reimbursed to the organization or agency.

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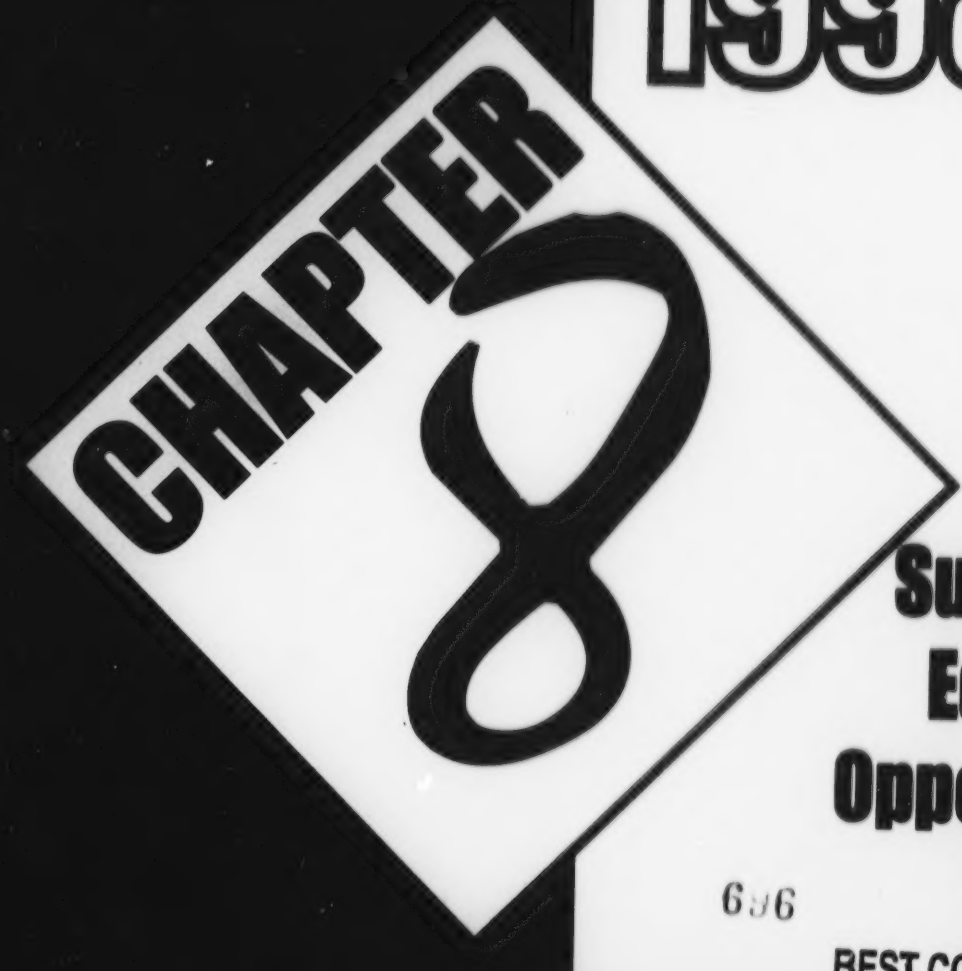

Federal Supplemental Educational Opportunity Grant Program

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CONTENTS

CHAPTER 8
FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM

INTRODUCTION 1

SECTION 1: SELECTING RECIPIENTS 3
- General Eligibility Requirements 3
- Priority Order for FSEOG Awards 4
- Federal Pell Grant Eligibility 4
- Less-Than-Full-Time and Independent Students 5
- Making FSEOGs Available Throughout the Year 6
- Establishing Categories of Students 6

SECTION 2: PAYMENTS TO STUDENTS 7
- Minimum and Maximum Award Amounts 7
- General Disbursement Requirements 7
- Frequency of Disbursements 8
- Uneven Costs/Unequal Disbursements 8
- Late Disbursements 8
- FSEOG Overawards and Overpayments 9
- Coordination with Bureau of Indian Affairs grants 9

SECTION 3: PROGRAM FUNDS 11
- Federal Share and Nonfederal Share 11
- Administrative Cost Allowance 13
- Transfer of Funds From FSEOG Prohibited 14
- Fiscal Procedures and Records 14

Introduction

The purpose of the Federal Supplemental Educational Opportunity Grant (FSEOG) Program is to encourage schools to provide grants to exceptionally needy undergraduate students to help pay for their postsecondary education. This provision is in Section 413C(c)(2) of the Higher Education Act of 1965, as amended. Giving priority to applicants with exceptional financial need, schools selecting FSEOG recipients must use the selection criteria discussed in Section 1 of this chapter.

section 1

Selecting Recipients

GENERAL ELIGIBILITY REQUIREMENTS

To receive a Federal Supplemental Educational Opportunity Grant (FSEOG), a student must meet the applicable eligibility requirements listed in Chapter 2, Section 1, "Student Eligibility." In addition, an eligible recipient must be an undergraduate student and must have financial need.

FSEOG undergraduate student definition—34CFR 676.2

An undergraduate student is defined under the FSEOG Program as a student who is enrolled in an undergraduate course of study at an institution of higher education and who

- ◊ has not earned a bachelor's degree or first professional degree and
- ◊ is in an undergraduate course of study that usually does not exceed four academic years or is enrolled in a four- to five-academic-year program designed to lead to a first degree.[1]

No FSEOG for additional undergraduate degree

A student who has earned a bachelor's or first professional degree is **not** eligible to receive an FSEOG to pursue an **additional** undergraduate degree,[2] based on the above definition of undergraduate student.

A school must make FSEOG funds reasonably available (to the extent of available funds) to all eligible students.

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[1] A student enrolled in a program of any other length is considered an undergraduate student for only the first four academic years of that program.

[2] Note that the definition of undergraduate student in the FSEOG regulations differs from the definition in the Federal Perkins Loan and FWS program regulations (see 34 CFR 674.2 and 675.2). The definition of undergraduate student in the Federal Perkins Loan and FWS program regulations does permit a person with a bachelor's or first professional degree to receive aid from those programs to pursue an additional undergraduate degree.

PRIORITY ORDER FOR FSEOG AWARDS

First selection group

In determining the priority order in which students will be awarded FSEOG funds in any given award year, a school must first choose those students with exceptional financial need—that is, those with the lowest Expected Family Contributions (EFCs) who will also receive Federal Pell Grants in that award year. We will refer to this group of students as the "first selection group."

Second selection group

If the school has FSEOG funds remaining after awarding FSEOG funds to the entire first selection group, the school must next award FSEOG funds to those eligible students with the lowest EFCs who will not receive Federal Pell Grants in that award year. We will refer to this group of students as the "second selection group."

FEDERAL PELL GRANT ELIGIBILITY

A student who will also receive a Federal Pell Grant in that award year is a student who has demonstrated Pell Grant eligibility for the same award year based upon

- a *Student Aid Report* (SAR) the student submits to the school,
- electronic SAR information the school receives from the Central Processing System (CPS), or
- a manual calculation.

The school must keep the appropriate Pell Grant eligibility information on file. If the school determines a student's Pell Grant eligibility by one of the above methods and awards an FSEOG based on that determination but the FSEOG recipient does not actually receive a Pell Grant during the award year, the school relied on the demonstrated eligibility in good faith and, thus, is not required to recover the FSEOG funds.

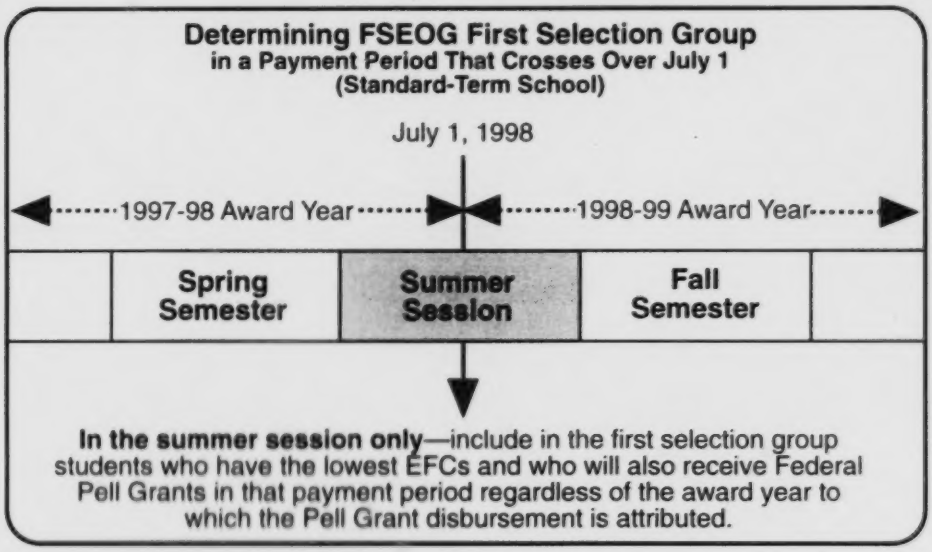
If payment period crosses July 1—Dear Colleague Letter CB 91-8, dated May 1991

If a student is enrolled in a payment period that begins in one award year and ends in the next[3] and if the student is among those students with the lowest EFCs who will also receive Pell Grants **in that payment period**, the student has met the first-selection-group requirements **(for that payment period only)** regardless of the award year to which his or her Pell Grant payment period is attributed.

For example, Fred and Ethel are enrolled at Trumbull University in a program that begins in June 1998 and ends in August 1998, and both are

[3] The payment period begins before July 1 of any year and ends after July 1 of that same year.

among those students with the lowest EFCs who will also receive Pell Grants **in that payment period**. Even though Fred is receiving a 1997-98 Pell Grant disbursement for that payment period and Ethel is receiving a 1998-99 Pell Grant disbursement for that payment period, both students have met the first-selection-group requirements for that payment period.


Determining FSEOG First Selection Group
in a Payment Period That Crosses Over July 1
(Standard-Term School)
July 1, 1998
1997-98 Award Year
1998-99 Award Year
Spring Semester
Summer Session
Fall Semester
In the summer session only—include in the first selection group students who have the lowest EFCs and who will also receive Federal Pell Grants in that payment period regardless of the award year to which the Pell Grant disbursement is attributed.

"Payment period" is defined as a semester, trimester, or quarter; for a school not using those academic periods, it is the period between the beginning and the midpoint or between the midpoint and the end of an academic year.

LESS-THAN-FULL-TIME AND INDEPENDENT STUDENTS

34CFR 676.10(b)

A school must offer at least 5% of its FSEOG allocation to less-than-full-time and independent students if the school's FSEOG Program allocation is directly or indirectly based in part on the financial need of these students and if the financial need of all such students exceeds 5% of the total financial need of all students at the school. Additional information is in Chapter 5, Section 1. Determination of whether a school must offer at least 5% of its 1998-99 allocation to these students is based on eligible aid applicant data filed for the 1996-97 award year. For subsequent award year allocations, determinations will be governed by data filed for the second preceding award year. This provision is not applicable for FSEOG if the school received an FSEOG allocation of $5,000 or less. A school cannot exclude less-than-half-time students from its definition of less-than-full-time students.

MAKING FSEOGs AVAILABLE THROUGHOUT THE YEAR

A school must develop written selection procedures to ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year in accordance with the selection provisions found in 34 CFR 676.10. For a school that enrolls students as often as monthly or weekly, FSEOG funds can be reserved for use throughout that award year (on the basis of institutional experiences from previous periods), and selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year.

ESTABLISHING CATEGORIES OF STUDENTS

The school is allowed to establish categories of students to be considered for FSEOG awards as a means of administering its packaging policies. Categories may be based on class standing, enrollment status, program, date of application, or a combination of factors. By establishing these categories, the school is attempting to ensure that the students in each category have an opportunity to be awarded FSEOG funds. The percentage or dollar amount of funds assigned to each category is also at the school's discretion; there is no requirement to make that amount proportional to the need of students in a particular category or even to the number of students in the category.

Prohibition against excluding certain groups of students

Categorization may not be used to exclude certain students or groups of students from consideration. If the school knows that its funds are so limited as to effectively exclude year after year categories that come later in the sequence, the school may not be in compliance with the "reasonably available" provision. This principle would not apply to a category made up of students whose applications are received after a specific deadline; there is no requirement to reserve funds for late applicants although the school is not precluded from doing so.

Prohibition against EFC cutoffs or professional judgment

A school would not be in compliance with the Higher Education Act of 1965 (HEA), as amended, and with the FSEOG regulations were it to award FSEOGs on a first-come, first-served basis or were it arbitrarily to set expected EFC benchmarks (cutoffs) from below which it would select FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process. Furthermore, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to an expected EFC or to a cost of attendance amount, not as a means to circumvent the FSEOG selection policy.

Section 2 Payments to Students

MINIMUM AND MAXIMUM AWARD AMOUNTS

A school may award a Federal Supplemental Educational Opportunity Grant (FSEOG) in an amount the school determines a student needs to continue his or her studies for an academic year. A student's minimum allowable award for an academic year may be reduced proportionately if the student is enrolled for less than an academic year. An FSEOG may not be less than $100 and may not exceed $4,000 for a full academic year unless the student has reasonable costs of study abroad that exceed the cost of attendance at the home school. The maximum amount of the FSEOG may be increased from $4,000 to as much as $4,400 for a student participating in a study-abroad program that is approved for credit by the home school.

Enrollment for less than an academic year

FSEOG for study abroad

GENERAL DISBURSEMENT REQUIREMENTS

A school must disburse FSEOG funds to a student or the student's school account in accordance with the cash management regulations in 34 CFR 668.164. The cash management requirements that apply specifically to the campus-based programs are discussed in Chapter 5, Section 3. The provisions that apply to all Student Financial Assistance (SFA) programs are discussed in detail in Chapter 3, Section 3.

If a student withdraws (officially or unofficially) or is expelled before the first day of classes, the school must return to the FSEOG account any funds that were paid to the student. A student who does not begin class attendance is deemed to have withdrawn. If a student drops out **after** receiving his or her FSEOG but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter 3, Section 4.

FREQUENCY OF DISBURSEMENTS

A school that is awarding an FSEOG for a full academic year must advance a portion of the grant during each payment period, **even if it does not use standard academic terms**.

In general, to determine the amount of each disbursement, a school will divide the total FSEOG award by the number of payment periods the student will attend. The definition of payment period is in 34 CFR 668.4. For a school that measures progress in credit hours and has academic terms, a payment period is defined as a term (a semester, trimester, quarter, or nonstandard term). The definition of payment period for a school that does not have academic terms or a school that measures progress in clock hours is discussed in detail in Chapter 3, Section 3.

A school may advance funds **within** a payment period in whatever installments it determines will best meet the student's needs. However, if the total amount awarded a student under the FSEOG Program is less than $501 for an academic year, only one payment is necessary.

UNEVEN COSTS/UNEQUAL DISBURSEMENTS

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, a school may make unequal FSEOG disbursements. The school may also make unequal disbursements under the Federal Perkins Loan Program. For a discussion of uneven costs and unequal disbursements, see Chapter 6, Section 2.

LATE DISBURSEMENTS

Late payment conditions—34CFR 668.164(g)

A school may make a late disbursement of an FSEOG to an ineligible student if the student became ineligible solely because the student is no longer enrolled at the school for the award year. Before the student dropped out, the school must have received a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the student with an official Expected Family Contribution (EFC) and must have awarded the student the FSEOG. The school may make that late disbursement only if the funds are used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible, and the school must make the late disbursement no later than 90 days after the date the student became ineligible because he or she was no longer enrolled.

FSEOG OVERAWARDS AND OVERPAYMENTS

To determine if a student has received an FSEOG overaward or overpayment, a school must follow the procedures in 34 CFR 673.5. A list of resources and a discussion of overawards and overpayments are included in Chapter 5, Section 2, "Resources and Overawards."

COORDINATION WITH BUREAU OF INDIAN AFFAIRS GRANTS

To determine the amount of an FSEOG for a student who is also eligible for an educational grant from the Bureau of Indian Affairs (BIA), a school must coordinate the awards according to the provisions of 34 CFR 673.6, discussed in Chapter 5, Section 2, "Resources and Overawards."

Section 3 Program Funds

The Higher Education Act of 1965 (HEA), as amended, describes the Federal Supplemental Educational Opportunity Grant (FSEOG) Program allocation process in detail; those procedures are not repeated in the regulations. Funds are allocated directly to schools according to the statutory formulas in section 413D of the Act. Schools receive their disbursements in periodic installments either in advance or as reimbursements. The U.S. Department of Education **reallocates** funds to a school in a manner that best carries out the purposes of the FSEOG Program.

Allocation of funds—34CFR 673.4

A school must maintain funds received for its administration of the FSEOG Program in accordance with the cash management provisions of 34 CFR 668.163. The provisions are discussed in Chapter 3, Section 3.

Cash Management

As discussed in the Introduction to Chapter 5, if a school returns more than 10% of its allocation for a given award year, the Department will reduce the school's allocation for the second succeeding award year by the dollar amount returned. The Department may waive this provision for a specific school if it finds that enforcement would be contrary to the interest of the program. The Department considers enforcement to be contrary to the interest of the program only if the school returned more than 10% of its allocation due to circumstances that are beyond the school's control and that are not expected to recur. The information a school provided on its *Fiscal Operations Report and Application to Participate* (FISAP) for the 1996-97 award year will determine the amount of reduction, if any, of the school's allocation for the 1998-99 award year.

Allocation reduction for returned funds in previous award year

FEDERAL SHARE AND NONFEDERAL SHARE

The federal share of FSEOGs made by a school may not exceed 75% of the total FSEOGs. The school must contribute a nonfederal share (also called "institutional share") of 25%. However, the Department may waive the nonfederal share requirement and may authorize for an award year a federal share of 100% to a school that 1) is designated as an eligible institution under the Strengthening Institutions Program or the Strengthening Historically Black Colleges and Universities Program and 2) requests the waiver on the FISAP for that award year.

Waiver of 25% requirement

Sources of nonfederal share

The nonfederal share of FSEOGs must be made from the school's own resources. These resources may include

- institutional scholarships and grants,
- waivers of tuition or fees,
- state scholarships and grants, and
- funds from foundations or other charitable organizations.

Including state scholarships

The Department has determined that all state scholarships and grants, **except** for State Student Incentive Grants (SSIGs), are eligible funds that may be used to meet the nonfederal share requirement of FSEOGs. SSIGs, for this purpose, are defined as the federal SSIG allocation plus the minimum required state matching amount. The remaining state grants are not considered SSIGs.

Percent of state scholarships that may be used as nonfederal share—Dear Colleague letter CB-96-16, August 1996

Dear Colleague Letter CB-97-14, issued in August 1997, provided a chart indicating what percentage of each state's scholarships could be used to provide the nonfederal share of FSEOG awards for the 1997-98 award year. The Department computed the percentages in the chart on the basis of information furnished by the respective states regarding expected expenditures for state scholarships and grants for the 1997-98 award year, and by using the 1997-98 SSIG allocation data and required matching information. A similar chart for the 1998-99 award year will be issued in a Dear Colleague Letter in August 1998. Each school can apply the appropriate state percentage to the state scholarships and grants its students receive to determine the total amount of state scholarships and grants that may be used to meet the FSEOG nonfederal share requirement.

For example, a student receives a grant of $600 from a state with a percentage of 92.35. The school multiplies 92.35% by $600, resulting in $554, which is the portion of the grant that may be used to meet the nonfederal share requirement for a $2,300 FSEOG award ($1,746 is the federal share of the FSEOG award).

As a variance from use of the percentages indicated in the chart, if a school has specific knowledge that a state scholarship or grant—irrespective of its name—is considered to be the required state matching portion of an SSIG, that scholarship or grant may not be used to meet the FSEOG nonfederal share. Also, if a school has documented knowledge that a state scholarship or grant is not comprised of SSIG monies (federal or state), 100% of the scholarship or grant may be used as the FSEOG nonfederal share.

Definition of FSEOG recipient

The 1998-99 nonfederal share requirement of 25% (unless the school qualifies for a waiver) may be met by one of three methods. In the following discussion of these methods, you should note that for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded the student must have come from the FSEOG federal dollars. Also, by the time the FSEOGs are disbursed (regardless of what point in the award period the disbursements are made), the required match must have been accomplished; that is, the school's own resources must have been disbursed before or at the time the federal dollars are disbursed. However, it is important to note that outside resources[1] can be used to match FSEOGs even if the funds are received at a later date, provided that the school has written information about funds that the noninstitutional agency or organization is awarding to the student involved. The written information must be kept on file at the school.

Three methods of meeting institutional share

The three methods a school may use to meet its nonfederal share follow:

1. Individual FSEOG recipient basis—the school provides its share to an individual FSEOG recipient together with the federal share; that is, each student's total FSEOG would consist of 25% nonfederal resources and 75% federal dollars for the 1998-99 award year.

2. Aggregate basis—the school ensures that the sum of all funds awarded to FSEOG recipients in the 1998-99 award year comprises 75% FSEOG federal funds and 25% nonfederal resources. For example, if a school awards a total of $60,000 to FSEOG recipients in 1998-99, it has to ensure that $45,000 comes from FSEOG federal funds and $15,000 comes from nonfederal resources; if there are 100 FSEOG recipients, the entire $15,000 nonfederal resource requirement can be met by awarding a total of $15,000 in nonfederal resources to four FSEOG recipients. However, each FSEOG recipient must receive some FSEOG federal funds.

3. Fund-specific basis—the school establishes an "FSEOG fund" into which it deposits FSEOG federal funds and the required 25% nonfederal share. Awards to FSEOG recipients then are made from the fund.

ADMINISTRATIVE COST ALLOWANCE

When a school calculates its administrative cost allowance for the 1998-99 award year, the school must include in its calculation the full amount of

[1] For example, state scholarships and foundation or other charitable organization funds.

its FSEOGs—both the 75% federal share and the required 25% nonfederal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its administrative cost allowance. If the Department has granted a school a waiver of its required nonfederal share, that school may calculate its administrative cost allowance only on the full federal portion. For additional information about the administrative cost allowance, refer to Chapter 5, Section 3.

TRANSFER OF FUNDS FROM FSEOG PROHIBITED

Transferring funds to FSEOG

The HEA prohibits the transfer of FSEOG Program funds to any other program. Since the 1993-94 award year, schools have been prohibited from transferring FSEOG funds to the Federal Work-Study (FWS) Program. However, a school may transfer up to 25% of its FWS allocation and 25% of its Federal Perkins Federal Capital Contribution (FCC) allocation to the FSEOG Program.

A school that transfers funds to the FSEOG Program from FWS during an award year must transfer any unexpended funds **back** to the FWS Program at the end of the award year. The same requirement exists for Perkins Loan FCC funds transferred to the FSEOG Program.

FISCAL PROCEDURES AND RECORDS

Cash management—34CFR 668.163

Requirements for maintaining and accounting for Student Financial Assistance (SFA) program funds are included in 34 CFR 668.163. The cash management requirements that apply in general to SFA programs (those in the General Provisions) are discussed in Chapter 3, Section 3. The cash management requirements specific to the campus-based programs (those in the FWS, FSEOG, and Perkins Loan regulations) are discussed in Chapter 5, Section 3.

Recordkeeping requirements—34CFR 668.24 & 676.19

A school must follow the recordkeeping requirements in the General Provisions and those in the FSEOG regulations. The recordkeeping requirements that apply in general to SFA programs (those in the General Provisions) are discussed in Chapter 3, Section 7. The recordkeeping requirements specific to the campus-based programs (those in the FWS, FSEOG, and Perkins Loan regulations) are discussed in Chapter 5, Section 3. Information on FWS payroll records is provided in Section 3 of this chapter.

In addition to following the fiscal procedures and records requirements mentioned in Chapter 3, Sections 3 and 7, in Chapter 5, Section 3, and in

Section 3 of this chapter, a school must meet the following requirements, which are included in the FSEOG regulations:

Fiscal procedures and records requirements—34CFR 676.19

- ◊ A school must establish and maintain an internal control system of checks and balances that insures that no office can both authorize FSEOG payments and disburse FSEOG funds to students.

- ◊ A school must establish and maintain program and fiscal records that are reconciled at least monthly.

- ◊ Each year a school must submit a Fiscal Operations Report and other information the Department requires. The information must be accurate and must be provided on the form and at the time specified by the Department.

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 5

State Grant Programs

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CONTENTS

CHAPTER 9
STATE GRANT PROGRAMS

INTRODUCTION 1

SECTION 1: STATE STUDENT INCENTIVE GRANT PROGRAM 3
- Matching Requirements 3
- Administrative Patterns 5
- School Participation 5
- Student Eligibility 6
- Student Application Procedures and Awards 8
- Fiscal and Reporting Relationships between Schools and the State Agency 10

SECTION 2: ROBERT C. BYRD HONORS SCHOLARSHIP PROGRAM 13
- Selection of Scholars 13
- Eligibility to Receive Scholarship 15
- Continuing Eligibility Criteria 16
- Allocation Formula 19
- Packaging of Byrd Scholarship with Other SFA Funds 19

SECTION 3: PAUL DOUGLAS TEACHER SCHOLARSHIP PROGRAM 21
- Scholarship Agreement 21
- Reduced Teaching Requirement 23
- Teacher Shortage Area 23
- Repayment of Scholarship if State Agency/Scholar Agreement is Not Fulfilled 24

SECTION 4: NATIONAL EARLY INTERVENTION SCHOLARSHIP AND PARTNERSHIP PROGRAM 27
- State Eligibility 29
- Matching Requirements 29
- Early Intervention Component 29
- Scholarship Component 31
- Student Eligibility 31

Packaging Aid 32
Allotment to States 32
Evaluation 33
Additional Information 33

SECTION 5: DIRECTORY OF STATE AGENCIES 35

Introduction

This chapter covers the State Student Incentive Grant (SSIG) Program, the Robert C. Byrd Honors Scholarship (Byrd) Program and the National Early Intervention Scholarship and Partnership (NEISP) Program. The SSIG, Byrd, and NEISP programs are authorized under Title IV of the Higher Education Act of 1965, as amended (HEA).

How the programs are funded

A student who wishes to apply for financial assistance from these programs may do so through the appropriate education assistance agency in his or her state. Under the SSIG Program, the Secretary of Education provides states with funds to establish a state grant program assisting students who demonstrate substantial financial need. Each state matches the federal funds on at least a 50-50 ratio. Under the Byrd Program, the Secretary makes grants to states to enable those states to award scholarships to high school seniors who have demonstrated outstanding academic achievement and who show promise of continued academic achievement. (Scholarship recipients are called Byrd Scholars). Under the NEISP Program, the Secretary provides states with grants for early intervention and scholarship assistance. Such assistance is intended to encourage students to obtain high school diplomas and to pursue higher education.

State agency listing

A student with questions on eligibility and award procedures for any of these programs should contact the appropriate state agency that administers the program in that student's state. A complete list of these agencies is included in Section 5 of this chapter. (There is no individual state agency list for the NEISP Program. See page 33 of Section 4 of this chapter for more information.)

Paul Douglas Teacher Scholarship Program

Section 3 of this chapter covers the Paul Douglas Teacher Scholarship (Douglas Scholarship) Program. No new funding for individual scholarships has been authorized since the beginning of the 1996-97 year. However, each former scholarship recipient who has not fulfilled his or her scholarship agreement must continue to do so. This agreement is described in detail in Section 3. If a Douglas Scholarship recipient has specific questions about his or her agreement, he or she should contact his or her state agency. (See section 5 of this chapter.)

Byrd Funding

Specific information on the maximum scholarship amount for 1998-99 that a Byrd Scholar may receive was not available at the time this Handbook went to print. Further information will be provided in the form of a "Dear Colleague" letter. When issued, this up-to-date information will be available on the SFA BBS.

NEISP Funding

Under the NEISP Program, no funding will be available for new state applications. Only the current nine states already receiving funding will continue to be funded.

section 1 State Student Incentive Grant (SSIG) Program

Purpose of program

The State Student Incentive Grant (SSIG) Program assists states in providing students who demonstrate substantial financial need with grants to attend postsecondary schools. Each state may use a percentage of its SSIG funding to provide work-study assistance through community service-learning job programs. (This work-study assistance is explained in more detail beginning on page 4 of this section.)

These state programs carry a variety of names that do not necessarily include the words "student incentive grants" in program titles. The SSIG Program provides funds to the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, Guam, the Northern Mariana Islands, and the Republic of Palau.

Because state programs vary, student and school inquiries about SSIG and other state grant, scholarship, and work-study assistance should be directed to the state agencies listed in Section 5. Do not inquire directly with the U.S. Department of Education (the Department).

To help financial aid administrators understand the variety of state practices, this section describes some of the conditions and regulations that affect state program operations.

MATCHING REQUIREMENTS

Each eligible participating state receives an annual SSIG allotment (formula grant) from the Department based on the state's eligible postsecondary education enrollment. The federal allotments must be matched by funds appropriated by the state, and this matching must represent an increase in the state-appropriated grant and work-study expenditure over the amount spent during an established base year (defined as the second year before the state began participating in the SSIG Program). The state must maintain its matching SSIG Program expenditures at a level **not less than** the average for the preceding three fiscal years, or at the level of the average per full-time equivalent student for those years. SSIG Program expenditures used in matching the federal allotment must be the net amount of expenditures and should not include any refunded or returned amounts that were not actually expended.

Matching in auditable dollar amounts

Matching must be in auditable dollar amounts. Tuition waivers or remissions may be considered grants only if money actually changes hands from state to school to student, and if this transfer can be documented as a cash transaction in the appropriate records at each level.

Each award year, a state may use up to 20% of its allotment for a community service-learning job program. The student must receive compensation for work, not a grant. The job program must be administered by postsecondary schools in the state, and each student employed under the program must be employed in work for the public interest. The employer may be a school; a federal, state, or local public agency; or a private nonprofit organization. An arrangement must be established between the school and the agency or organization.

Community service-learning job program

Schools, in consultation with local nonprofit, governmental, and community-based organizations, identify jobs (in direct service, planning, or applied research) that are designed to improve the quality of life for residents (particularly low-income residents) of the community served.

Each community service-learning job must

- ◊ provide the participating student with a job related to his or her educational or vocational program or goals;
- ◊ be governed by conditions of employment that are considered appropriate and reasonable, based on such factors as type of work performed, geographic region, and proficiency of the employee;
- ◊ pay at least the current federal minimum wage as mandated by the Fair Labor Standards Act of 1938 (but may not use the subminimum wage);
- ◊ not displace employed workers or impair existing contracts for service; and
- ◊ not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

Funding reallotment

Basic SSIG allotments not used by one state are reallotted to other qualified states. Within the constraints of federal appropriations, states are free to schedule their own funding cycles for students, but funds may not be carried over from one fiscal year to the next. However, the funds may be used for the summer term if the term falls within the program year (July 1 through June 30) for which the funds were appropriated.

ADMINISTRATIVE PATTERNS

There are different ways in which a state may choose to administer its program. The state may choose to use centralized administration, decentralized administration, or a combination of both. Whichever method is used, a state must use all federal funds and state matching funds for student awards. (A state is not permitted to use either federal funds or state matching funds to help defray administrative costs.)

Centralized administration

Most states, particularly those with well-established state student assistance programs, use centralized administration. In centralized administration, a single state agency receives and processes student applications, notifies students of awards, verifies attendance, makes disbursements, and keeps complete records on all student awards.

Decentralized administration

In other states, particularly those with relatively new state programs, the designated state agency delegates certain functions to participating schools. This is called decentralized administration. In these cases, funds available through the state agency are generally suballocated to eligible schools on the basis of enrollment or need formulas. The schools recommend SSIG recipients to the state agency, which approves individual awards from these fund allotments. In states that use decentralized administration, funds awarded under these programs are still considered to be state aid and not institutional aid.

Location of student files

In the centrally administered state programs, actual student files are located in the state agency. In decentralized state administration, which requires schools to process much of the student information, the financial aid administrator gives the state agency the information needed for formal approval of individual student awards. In either case, to monitor the use of SSIG funds, schools examine student files to verify that recipients met all eligibility criteria and received the correct award amount.

SCHOOL PARTICIPATION

Within the limits of federal statutes and regulations, states determine eligibility standards in terms of their own fiscal, constitutional, and statutory restraints. See Chapter 3 on institutional eligibility for details about federal limits on school participation.

Schools that are licensed by their state agency as clock-hour institutions must use clock hours to determine a student's eligibility for SFA funds. (See Chapter 3.)

All nonprofit institutions of higher education in a state are eligible to participate, except when participation violates the state's constitution or a state law enacted before October 1, 1978. While states are not required to include proprietary (for-profit) schools in their state programs, most recent SSIG participation figures show that 26 states made SSIG awards available to students attending such schools.

Other factors affecting participation

School participation may also be affected when some states suballocate available SSIG funds to the various types of schools on the basis of enrollment, need, the availability of other non-SSIG aid, and other relevant criteria. In such instances, money not claimed for student awards at one school may be reclaimed by the state and reassigned to other schools.

STUDENT ELIGIBILITY

Student eligibility criteria for receiving aid from the SSIG Program differ among states depending on constitutional, statutory, or policy restrictions. (Some states have legislated formulas for determining student eligibility and the amount of assistance given to individual students.) However, to be eligible for assistance under the SSIG Program, all students must meet the relevant eligibility requirements contained in Subpart C of the General Provisions regulations (34 CFR Parts 668.31 - 39) and must demonstrate substantial financial need as determined in accordance with the states' criteria as approved by the Secretary. The standards that states may use to determine need are discussed in more detail in the subsection on Student Application Procedures and Awards beginning on page 8 of this section.

General eligibility requirements to receive SFA funds

The relevant eligibility requirements of Subpart C are summarized briefly below. These requirements are covered in greater detail in Chapter 2.

In general, the student must

- be either a U.S. citizen or an eligible noncitizen,
- be enrolled as a regular student in an eligible program at an eligible school,
- have a high school diploma or its recognized equivalent (or be beyond the age of compulsory school attendance in the state where the school is located and have passed an independently administered test approved by the Department),

- ◊ be maintaining the satisfactory academic progress standards in his or her course of study,
- ◊ sign a Statement of Educational Purpose and a Certification Statement on Overpayments and Default, and
- ◊ register with the Selective Service, if required.

A student is not eligible for SFA funds if he or she

- ◊ is enrolled in an elementary or secondary school;
- ◊ has borrowed in excess of the annual or aggregate limits for the SFA loan programs; or
- ◊ is in default on a student loan or owes a refund on a student grant from the SFA Programs.

Eliminating SSIG overpayments

If, however, a student owes a refund on an SSIG overpayment, that student would still be eligible to receive additional SFA funds as long as he or she meets all other eligibility requirements and as long as the school can eliminate the overpayment by adjusting financial aid payments (other than Federal Pell Grants) in the same award period in which the overpayment occurred.

Other factors that determine whether a student is eligible for an SSIG award include the state's definition of substantial financial need, the method of determining maximum awards, and the costs that can be covered. Some states limit awards to cover only the cost for tuition and fees; some states include allowances for room, board, and other costs. Some have allowances for commuters. Many state grant programs exclude part-time students and those who attend schools outside the state. Some states have reciprocal arrangements with neighboring states, so that students may receive SSIG funds from their home states even though the students are enrolled in schools in other states. SSIG funds may be awarded to students participating in programs of study abroad that are approved for credit by the home school.

A state's SSIG independent student program funding should be comparable to the overall state program if the entire state program is not contained in the state's SSIG program. To the extent practicable, the proportion of SSIG funds awarded to independent students in the SSIG Program must be the same proportion of funds awarded to independent students in the state program (or programs) of which the state's SSIG program is a part.

If a state awards grants to independent or less-than-full-time students, it must allocate a reasonable portion of funds for these awards. The Secretary of Education (the Secretary) will determine if the allocation is reasonable on a case-by-case basis, if necessary.

If the state's allocation is based on a formula that includes the financial need of independent or less-than-full-time students, the state must ensure that those students receive a reasonable proportion of SSIG funds.

STUDENT APPLICATION PROCEDURES AND AWARDS

The student must apply to his or her state agency either directly or indirectly through the school. Every award requires the official state agency's formal approval, based on a determination of need. (Section 5 lists these state agencies.)

Maximum award

The maximum award that a student may receive is $5,000 per academic year. The maximum award is reduced proportionately for students who attend part time. Many states set maximum awards under $5,000.

Most states limit SSIG awards to undergraduates attending at least halftime. However, at each state's option, graduate, less-than-half-time, and other nontraditional students may also be eligible to receive SSIG awards. States may decide whether to make individual SSIG awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

Determining substantial need

Student recipients are selected annually on the basis of substantial need, according to criteria established by the state and approved by the Department. A state may define need in terms of income, Expected Family Contribution (EFC), or relative need, as measured by cost of attendance minus available resources. Regardless of which need analysis system the state selects, the designated state agency is responsible for final approval of individual student recipients, thus allowing each state to develop consistent methods in awarding aid to candidates statewide.

Need analysis systems

Most states measure need by using a single need analysis system for all applicants (the Federal Needs Analysis Methodology). However, in decentralized programs—where schools recommend student candidates for awards subject to the designated state agency's approval—student applications may be processed according to the need analysis systems used by the various schools. In any event, the designated state agency has final authority for selecting recipients who meet the need criteria under standards established for the statewide program.

Dependency criteria

As discussed in Chapter 2, a dependent student who applies for aid from any of the SFA Programs must include parental information on the application. An independent student need only include his or her financial information (and, if married, that of a spouse). The criteria a student must meet to apply as an independent student appear in Chapter 2.

The Department may approve, on a case-by-case basis, a state's criteria if they vary from those listed in Chapter 2. The state must show that it had good reason to use different criteria. This option to approve different criteria began in the 1995-96 award year.

Alternative criteria for determining dependency status

States that wish to use variant definitions for "independent student" must provide information concerning their definition when applying for program funds. The information should include a justification, with accompanying supporting documentation, showing why a variant definition should be approved. For example, a state may want to use its own definition because the state may incur excessive costs if required to use the federal definition.

In approving a state's "independent student" definition, the Department might also consider the extent to which the new definition imposes additional data requirements beyond those provided for by the federal definition and the Federal Needs Analysis Methodology.

A state's definition might not totally differ from the federal definition. For example, a state might use the federal definition but might delete the professional judgment provision.

Cost of applying

To award a student state aid, a state may require a student to provide applicant information on the *Free Application for Federal Student Aid* (FAFSA) or on another free form. In addition, the state may require a student to provide supplemental information on a fee-based supplemental form. If there is a fee for submitting and processing the state information on the supplemental form, the fee must be payable to the state, regardless of whether the information may also be used for institutional aid. Decentralized state grant programs (under which schools participating in the state SSIG programs award state grant funds) must consider state grant funds as state aid and not institutional aid.

Records and reports

State agencies responsible for administering SSIG funds must document their decisions and disbursements in their own central records, in school records, or in both. Variations of student/school rosters are often sent back and forth between the state agency and the schools to verify attendance, provide information related to student need, document disbursement of funds to students or to student accounts, guard against overawards, and help provide required records and reports.

FISCAL AND REPORTING RELATIONSHIPS BETWEEN SCHOOLS AND THE STATE AGENCY

In general, fiscal and reporting relationships between participating schools and the state agencies vary according to whether the states' programs are administered in a centralized or decentralized manner, or in a combined manner. In any case, the state agency must be held accountable for the disbursement of federal funds and for making the required reports to the Department. States are given considerable leeway in demonstrating fiscal responsibility related to administration of the SSIG Program. However, participating schools must meet the federal standards of fiscal responsibility described in Chapter 3.

At a minimum, even schools using the most centralized administrations must assure that students will meet satisfactory academic standards, must document the status of grant refunds, and must document the status of loan defaults. A school must also document student acknowledgment of awards if funds are paid to the school on behalf of the recipient; furthermore, the school must cooperate in packaging aid to avoid overawards.

In decentralized systems (in which the state agency depends on the school to help screen applicants) school records must also include need analysis documentation to justify formal approval of individual awards by the official state agency.

Individual student awards are subject to approval by the designated state agency. Schools may not transfer awards from one student to another without that agency's approval. Schools and state agencies should maintain regular communication so that any funds that become available later in the year will be used for qualified students.

Recovered funds must be redistributed

All funds (federal plus state) recovered from overawards should be redistributed to other qualified students during the applicable award period unless records for the period have been closed. If these funds are not reissued to qualified students, the state must return the recovered federal portion to the Department.

The state agency requires certain school reports to document the disbursement of federal funds to student recipients. The school reports also provide information needed to improve efficiency in the operation of state programs and to provide data for state budgets and for annual reports to the Department.

School reports document fund disbursement

The actual form and content of school reports vary from state to state, depending upon the size and maturity of the state programs, among other factors. There are no standard formats or channels for these school reports. For example, information about recipients by income level may come either from the central office records or from the schools. Communication may follow established procedures or may be developed through cooperative efforts of state and school representatives.

Student and school inquiries

For specific information on state student financial assistance policy, student and school eligibility, and grants to students attending out-of-state schools, contact the SSIG state agency program individuals listed in Section 5.

section 2

Robert C. Byrd Honors Scholarship Program

The Robert C. Byrd Honors Scholarship Program is authorized under Title IV, Part A, Subpart 6 of the Higher Education Act of 1965, as amended. Under this program, the Secretary of Education (the Secretary) makes available, through grants to the states, scholarships to exceptionally able students for study at postsecondary schools in order to recognize and promote student excellence and achievement. Student recipients under this program are known as Byrd Scholars.

Purpose of program

SELECTION OF SCHOLARS

To apply for a scholarship, a student follows the application procedures established by the State Educational Agency (SEA) in the state in which he or she is a legal resident. A "state" is any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, and the Republic of Palau. The SEA is the state board of education (or other agency in the state) that is primarily responsible for the supervision of public elementary and secondary schools.

Definition of state

The SEA establishes procedures for selecting the scholars after consulting with school administrators, school boards, teachers, counselors, and parents. Before each state's selection criteria and application procedures are implemented, they are reviewed and approved by the Department.

Procedures for selecting scholars established by the SEA

As stated in the introduction of this chapter, specific information on the maximum scholarship amount for 1998-99 that a Byrd Scholar may receive was not available at the time this Handbook went to print. Further information will be provided in the form of a "Dear Colleague" letter. When issued, this up-to-date information will be available on the SFA BBS.

Scholarship amounts

A year of study under current Byrd regulations means the period of time during which a full-time student at an institution of higher education is expected to complete the equivalent of one year of coursework (as defined by the school).

Renewability of awards

Awards can be renewed for up to three additional years, provided that funds are appropriated and students remain eligible. This continuing eligibility is discussed further on page 9-17 of this section.

Selection criteria designed for equitable representation

Each SEA designs its own selection criteria and procedures to ensure that it selects scholars for each award period for which funds are received according to the following allotments:

- For each state, no fewer than the number of scholars allotted to that state by the Secretary under the statutory formula are selected.
- For the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, the Northern Mariana Islands, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau, no fewer than 10 scholarships from each of these jurisdiction's residents are selected.
- For all participating states, enough scholars are selected to award all funds allotted for scholarships for each award period.

In addition, the SEA

- selects scholars solely on the basis of demonstrated outstanding academic achievement and promise of continued achievement;
- selects scholars in such a way that each part of the state, the District of Columbia, and Puerto Rico is represented fairly; and
- selects scholars regardless of
  - whether the secondary schools they attend are within or outside the scholars' states of legal residence;
  - whether the postsecondary schools they plan to attend are public or private or are within or outside their states of legal residence;

- the scholars' sex, race, color, national origin, religion, disability, or economic background; and

- the scholars' education expenses or financial need, except that the total amount of financial aid awarded to a scholar for a year of study may not exceed the scholar's total cost of attendance.

Schools scholars may attend

A scholar may attend any public or private nonprofit institution of higher education, proprietary institution of higher education, or postsecondary vocational institution as defined in Chapter 3.

Students apply through their state of residency

Under current program regulations, a student who is attending a secondary school outside of his or her state of residency must apply for a Byrd Scholarship through the SEA of his or her state of residency. This would include a student who was attending a U.S. Department of Defense overseas school or an out-of-state boarding school.

ELIGIBILITY TO RECEIVE SCHOLARSHIP

To receive a Byrd Scholarship, each student must meet the criteria listed below during the same secondary academic year in which the student submits the scholarship application.

The student must

- ◊ graduate from a public or private secondary school or receive the recognized equivalent of a high school diploma as recognized by the state in which the student resides, and

- ◊ have applied or been accepted for enrollment at an institution of higher education as a full-time student.

Note that the "recognized equivalent of a high school diploma" means

- ◊ a General Education Development (GED) Certificate, or

- ◊ a state certificate received by a student after the student has passed a state-authorized examination that the state recognizes as the equivalent of a high school diploma.

Full-time student

A full-time student is one who is enrolled at an institution of higher education and who is carrying a full-time academic workload as determined by the school under standards applicable to all students enrolled in the same program.

Additional eligibility requirements for selection

In addition to the two requirements listed on the previous page, a student is eligible to be selected as a scholar if he or she

- ◊ is a legal resident of the state to which he or she is applying for a scholarship;
- ◊ is a U.S. citizen or national, or provides evidence from the U.S. Immigration and Naturalization Service (INS) that he or she is
  - a permanent resident of the United States; or
  - in the United States for other than a temporary purpose and has the intention of becoming a citizen or permanent resident;
- ◊ is a citizen of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau;
- ◊ is not ineligible to receive assistance as a result of default on a federal student loan or other obligation, in accordance with the Education Department General Administrative Regulations (34 CFR Part 75.60);
- ◊ is registered with the Selective Service if required in accordance with the Student Assistance General Provisions regulations (34 CFR Part 668); and
- ◊ is planning to pursue a course of study at an institution of higher education.

A scholar is deemed to be "pursuing a course of study" if he or she is enrolled as a full-time student, as determined by the school he or she is attending under standards applicable to all students enrolled in the same course of study.

CONTINUING ELIGIBILITY CRITERIA

A scholar continues to be eligible for scholarship funds as long as he or she continues to

- ◊ meet the citizenship/permanent resident requirements listed on the previous page,
- ◊ be enrolled as a full-time student at an institution of higher education, and

- ◊ maintain the satisfactory academic progress standards of the school in accordance with the Student Assistance General Provisions.

Part-time enrollment allowed after first year

Byrd Scholars must be enrolled full time for the first year of study. If, after the first year of study, the SEA determines that unusual circumstances justify waiving the full-time attendance requirement, the scholar may enroll part time and continue to receive a scholarship payment.

The SEA must prorate any payment for a scholar enrolled part time according to the scholar's enrollment status for the academic period during which he or she

- ◊ continues to be enrolled part time, and
- ◊ remains otherwise eligible for the award.

The example below shows how a Byrd Scholarship is paid when full-time attendance is waived. It is based on the 1997-98 maximum of $1,110[1]

EXAMPLE:

Wendy M. enrolls full time for the fall semester and enrolls half time for the spring semester. During the spring semester, Wendy's full-time enrollment requirement has been waived. Wendy would then be eligible for half of her full scholarship for the fall:

$1,110 x 1/2 = $555

Because Wendy will be attending half time in the spring and her full-time attendance requirement has been waived, she will be eligible to receive half of the remaining $555, or $277.50.

Scholarship suspension

A scholar who fails to meet any of the eligibility requirements within an award year will have his or her scholarship suspended by the SEA. The scholar's eligibility remains suspended until the scholar is able to demonstrate to the satisfaction of the SEA that he or she meets these requirements. Once the suspension period reaches 12 months, the scholar's eligibility for that scholarship is terminated.

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[1]As previously stated in this section and in the Introduction of Chapter 9, the maximum scholarship amount for 1998-99 had not been determined when this Handbook went to print.

In exceptional circumstances (defined by the SEA) the scholar's 12-month suspension period may be extended without terminating the scholar's eligibility.

Postponement of enrollment

A state agency may permit a scholar to postpone or interrupt his or her enrollment at a postsecondary school for up to 12 months, beginning on the date the scholar otherwise would have enrolled in the school after the state agency awarded him or her the scholarship or on the date the scholar interrupts enrollment.

Each state agency establishes standards to determine when it will approve a period of postponement or interruption for a scholar. If the state does approve the postponement or interruption, it must document the scholar's subsequent enrollment.

A scholar who postpones or interrupts his or her enrollment is not eligible to receive scholarship funds during the period of postponement or interruption. Upon enrollment or reenrollment at an institution of higher education, the scholar resumes eligibility to receive scholarship payments. Note that these periods of postponement or interruption are not considered in calculating the scholar's period of suspension. Thus, any period of postponement or interruption will not be counted against the scholar in calculating the 12 months of suspension.

Byrd Scholarships are awarded for a period of not more than four years for the first four years of study. If the Byrd Scholar completes his or her undergraduate course of study in three years, that scholar is eligible to receive scholarship funds for only those three years of undergraduate study.

Scholarship funds cannot be used to attend foreign school

Note that a Byrd Scholar may not use his or her scholarship to attend a foreign school. The scholar must attend an eligible postsecondary education institution that is located in one of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

However, a scholar who is studying abroad through an institution (home school) that meets the definition of higher education and is located in a state (as described in the previous paragraph) is considered to be eligible to receive funds as long as he or she is

- ◊ enrolled at the home school; and
- ◊ receives credit from the home school.

ALLOCATION FORMULA

The Secretary uses the formula illustrated below to assign Byrd Scholarships to each participating state:

FORMULA

$$\frac{\text{Number of scholarships made to the individual state}}{\text{Number of scholarships made to all states}} = \frac{\text{That individual state's ages 5-17 population}}{\text{All states' ages 5-17 population}}$$

The population figures used in this formula are determined from the most recently available data from the Bureau of the Census.

PACKAGING OF BYRD SCHOLARSHIP WITH OTHER SFA FUNDS

Under Byrd regulations that took effect in September 1993, the SEA must ensure that the total amount of federal financial aid awarded to the Byrd Scholar does not exceed the scholar's total cost of attendance. If any federal loans are part of the scholar's financial aid package, they must be reduced prior to reducing the Byrd Scholarship. If the scholar is receiving a Pell Grant, though, the Byrd Scholarship must be reduced prior to reducing the Pell Grant. Section 419 J of the Higher Education Act, as amended, states that a Federal Pell Grant must not be reduced on the basis of the receipt of a Byrd Scholarship.

Byrd scholarship must be reduced prior to reducing a Pell Grant

Paul Douglas Teacher Scholarship Program

As stated in the introduction of this chapter, no new funding for individual scholarships under the Paul Douglas Teacher Scholarship Program (Douglas Scholarship) has been authorized since the beginning of the 1996-97 award year. While no new scholarships will be awarded, former scholarship recipients must continue to fulfill the scholarship agreement they entered into with their state agencies (to teach upon completion of their degree program). If a student is still enrolled and working toward his or her degree, that student will need to fulfill the agreement upon completion of the degree for the number of Douglas Scholarships received. A Douglas Scholar who needs assistance in finding alternative sources of aid to complete his or her degree program or has further questions about the program may wish to contact the Douglas Program representative listed in Section 5 of this chapter.

Scholar agrees to teach

This section covers the teaching agreement in detail (for example, how many years the Douglas Scholar must teach depending on the number of scholarships received) and explains the repayment procedures that are used if the agreement is not followed.

SCHOLARSHIP AGREEMENT

Any individual who received scholarships entered into an agreement with his or her state agency stating that upon completing his or her degree program, he or she will teach

- ◊ full time in any state at the public or private nonprofit preschool, elementary, or secondary level in a school; or
- ◊ full time in a private nonprofit institution, children with disabilities or with limited English proficiency.

Determining full-time teacher status

In determining that a scholar has taught full time, the chief state school officer (CSSO),[1] school principal, or a designee of these officials should consider the following:

- ◊ Any activities required to support classroom teaching, such as testing and evaluation of students, a reasonable allowance for "prep time," or other required activities may be considered in addition to classroom hours.

- ◊ Full-time substitute teaching may be credited toward the teaching obligation, provided that the scholar teaches a minimum of one term each school year. Credit for one term or more of teaching will be prorated if it is less than a full school year.

- ◊ Scholars who are technically classified as part time but whose teaching schedule is the equivalent to the typical full-time teacher may receive credit as having taught full time.

- ◊ If a scholar teaches less than a full school year, then teaching during summer school may be credited toward the teaching obligation. Other conditions contained in this section apply to teaching summer school.

- ◊ A teaching contract is not required in the employment situations listed previously in order to receive credit toward the teaching obligation.

- ◊ Scholars who are still teaching may receive credit previously denied for prior years under the liberalized conditions of this section. The state is encouraged to advise scholars of these changes so that the scholar may request review of teaching credit by the state or request a revised teaching certification form (or forms) for reevaluation by the school principal or CSSO's office.

Activities not acceptable as credit toward the teaching obligation include

- ◊ serving as a teacher's assistant or teacher's aide,

- ◊ serving a teaching internship (student teaching), and

- ◊ teaching overseas (including in U.S. Department of Defense Dependent schools).

[1] The CSSO is the highest ranking educational official for elementary and secondary education for the state.

Furthermore, volunteer activities may not be credited in classifying the scholar as teaching full time.

REDUCED TEACHING REQUIREMENT

The requirement to teach two years for each year of scholarship assistance is reduced by half if the scholar teaches on a full-time basis in a teacher shortage area that is designated as such by the Secretary of Education (the Secretary). States may propose for the Secretary's consideration teacher shortage areas at the preschool, elementary, and secondary school levels.

Also, if a scholar teaches full time and also teaches at least one class per day in a teacher shortage area, the scholar may receive the reduction of teaching obligation allowed for teaching in a shortage area. (This liberalization does not apply to Stafford or SLS loan deferments.)

TEACHER SHORTAGE AREA

For Douglas Scholars, teaching in a teacher shortage area is described further in Section 653.61 of the August 11, 1993 Douglas Program regulations. The term "teacher shortage area" is defined in §682.210(q)(5) through (7) of the Federal Family Education Loan Program (FFELP) regulations published on December 18, 1992. Douglas Scholars teaching in a shortage area may obtain certification in one of two ways:

- ◊ If the CSSO in the state where the scholar is teaching has previously notified the Secretary that a listing of teacher shortage areas will be provided to the school principal, then the school principal can certify that the scholar is
  - teaching full time and
  - teaching in a federally approved teacher shortage area.
- ◊ If the CSSO in the state where the scholar is teaching did not delegate certification authority to the school principals, then the CSSO's office will provide the certification.

Scholars teaching in designated areas continue to qualify

The FFEL regulations also describe other procedures necessary to establish teacher shortage areas. The teacher shortage areas are designated on an annual basis. However, a scholar who teaches in an area designated as a teacher shortage area in one year will continue to qualify for the teaching reduction even if that area is not designated as a teacher shortage area in subsequent years. In this case, the scholar must provide the state agency with a statement from the principal of the school in which he or she is teaching. This statement must certify that he or she continues to be

employed as a full-time teacher in the same area in which he or she was teaching when the teaching obligation was originally reduced.

Establishing teacher shortage areas

When establishing a teacher shortage area, the Secretary must give special consideration to

- areas in which emergency teacher certifications are being used to correct teacher shortages, and
- states that have retirement laws permitting early retirement.

REPAYMENT OF SCHOLARSHIP IF STATE AGENCY/SCHOLAR AGREEMENT IS NOT FULFILLED

Repayment includes interest

If the state finds that a Douglas Scholar has not complied with the scholarship agreement or is no longer pursuing a course of study leading to certification as a teacher at the public or private nonprofit preschool, elementary, or secondary level, the scholar must repay the amount of the scholarship received. The repayment is prorated according to the fraction of the teaching obligation not completed (as determined by the state agency). The scholar, in this case, is also responsible for paying a simple, annual interest charge on the outstanding principal, and all reasonable collection costs as determined by the state agency.

The state agency capitalizes any accrued interest at the time it establishes the scholar's repayment schedule. By statute, the interest rate charged must be the greater of the rate charged to new borrowers under the Stafford Loan Program or the rate charged to new borrowers under the PLUS Program. During 1997-98, for loans made from July 1, 1997 through June 30, 1998, the rate is 8.98 percent. For 1998-99, the rate will be adjusted on July 1, 1998.

Simple interest accrues

- from the date of the initial scholarship payment if the state agency has determined that the scholar
  - is no longer pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level; or
  - has completed a course of study leading to certification as a teacher at the preschool, elementary, or secondary level, but never taught; and

- from the day after that portion of the scholarship period for which the teaching obligation has been fulfilled. (The scholarship period is the original postsecondary academic year for which the scholarship was awarded.)

Minimum yearly repayment

The scholarship must be repaid in monthly or quarterly payments that cover principal, interest, and collection costs, according to a schedule established by the state. The minimum yearly repayment is $1,200 or the unpaid balance (whichever is less).

Time allotted for Scholarship repayment

The scholarship must be completely repaid within 10 years after the scholar enters repayment status, and the state may require the scholar to repay more than the minimum yearly repayment if needed to complete the entire repayment within the 10 year period.

Exceptions to repayment

The 10-year repayment period may be extended if the scholar meets an "exceptions to repayment" condition. The state agency shall not consider that the scholar has violated the repayment schedule if he or she does not meet the payments during the time he or she is

- engaged in a full-time course of study at a postsecondary institution;
- serving up to a maximum of three years as an active duty member of the armed forces of the United States;
- serving as a member of the Peace Corps or VISTA for a period of not more than three years;
- temporarily totally disabled for a period not to exceed three years (as established by sworn affidavit of a qualified physician);
- seeking but unable to find full-time employment for a single period not to exceed 12 months;
- unable to secure employment for a period not to exceed 12 months while caring for a disabled child, spouse, or parent; or
- unable to satisfy the terms of the repayment schedule while seeking but unable to find full-time employment as a teacher in a public or private nonprofit preschool, elementary, or secondary school for a single period not to exceed 27 months.

Qualifying for more than one exception

A scholar may potentially qualify for more than one of the above exceptions to repayment, provided that the exception is adequately documented as determined by the state agency. Scholars residing overseas

may apply for any of the exceptions listed, but the scholar must provide documentation deemed acceptable by the state.

Notifying the state agency

To qualify for any of the previously listed exceptions, the scholar must notify the state agency of his or her claim and provide supporting documentation as required by the state agency. If the scholar qualifies under any of the exceptions, he or she will not be required to make repayments—*nor will interest accrue*—on the outstanding balance. The state agency will notify the scholar about its determination of the scholar's qualification for the exception for which he or she petitioned the state.

Length of extension

The state agency shall extend the 10-year scholarship repayment period by a period equal to the length of time a scholar

- ◊ meets any of the "exceptions to repayment" conditions previously listed; or
- ◊ is unable to complete the scholarship repayments within this 10-year period because of his or her financial condition (as established to the state's satisfaction).

Cancellation

The state agency shall cancel a scholar's repayment obligation if the state determines

- ◊ on the basis of a sworn affidavit by a qualified physician, that the scholar is unable to teach on a full-time basis because he or she is totally and permanently disabled; or
- ◊ on the basis of a death certificate or other evidence, conclusive under state law, that the scholar has died.

737

section 4

National Early Intervention Scholarship and Partnership (NEISP) Program

The Higher Education Amendments of 1992 authorized funds for the creation of the National Early Intervention Scholarship and Partnership (NEISP) Program. Under this program, states carry out the activities of both an early intervention component and a scholarship component.

HEA '92

Grants provide financial incentives for states

Under the NEISP Program, the Secretary provides states with grants to

- ◊ encourage the states to provide or maintain a guaranteed amount of financial assistance necessary to permit eligible low-income students who obtain high school diplomas or the equivalent to attend institutions of higher education; and

- ◊ provide financial incentives to enable states—in cooperation with local educational agencies, institutions of higher education, community organizations, and businesses—to provide a variety of early intervention services.

These services include

- ◊ providing additional counseling, mentoring, academic support, outreach, and support services to preschool, elementary, middle, and secondary school students who are at risk of dropping out of school; and

- ◊ providing students and their parents with information on the advantages of postsecondary education and on their postsecondary financial options.

1998-99 funding

When program appropriations are less than $50 million (as they will be for 1998-99), states must apply for funds through a discretionary grant competition. For the 1998-99 award year, nine states are expected to be funded and to use all available federal funds. No new state applications will be considered. (The nine states currently receiving funds are California, Indiana, Maryland, Minnesota, New Mexico, Rhode Island, Vermont, Washington, and Wisconsin.)

When enough federal funds are available to provide for a new state applicant grant competition, the program will be run as a discretionary grant program and funds will be allotted to states on a competitive basis. The Secretary will evaluate each state's application on how well each state fulfills its responsibilities in

- ◊ submitting to the Secretary an initial plan and application for carrying out the activities under the NEISP Program,
- ◊ fulfilling the NEISP Program's early intervention component, and
- ◊ fulfilling the NEISP Program's scholarship component.

Evaluation of new state applications

The new state applications are evaluated using selection criteria, which take into consideration the state's

- ◊ need for the program,
- ◊ plan of operation,
- ◊ quality and qualification of the personnel who will be running the program in the state,
- ◊ budget and cost effectiveness,
- ◊ adequacy of resources,
- ◊ likelihood of success,
- ◊ public and private support,
- ◊ coordination with other early intervention activities,
- ◊ willingness to contribute more than half the program costs and the extent to which the state will overmatch its federal allotment, and
- ◊ evaluation report plan.

STATE ELIGIBILITY

A state must submit to the Secretary a state plan and an annual application describing in detail how the state will carry out the activities of both the early intervention component and the scholarship component. The state must also describe how it will provide matching funds for the program.

State agency designated by governor

The agency responsible for administering the NEISP Program in each participating state is designated by the state's governor. That agency may be either the state's SSIG agency, the State Education Agency (SEA), or another agency approved by the Secretary. (The SEA is the agency responsible for supervising the state's public elementary and secondary schools.)

MATCHING REQUIREMENTS

In its plan, a state must demonstrate to the Secretary that it will provide from state, local, or private funds at least half of the program costs and describe how those funds will be paid. All funds expended under this program must supplement, and not supplant, funds expended for existing state and local programs. A state may match the federal funds by means of

- ◊ scholarships or grants paid to students under the program from state, local, or private funds;
- ◊ tuition, fees, room or board waived or reduced for recipients under this program; and
- ◊ funds expended on documented, targeted, long-term mentoring and counseling provided by volunteers or paid staff of nonschool organizations.

EARLY INTERVENTION COMPONENT

Early intervention activities include comprehensive mentoring, counseling, outreach, and support services (including postsecondary financial aid counseling) to students in preschool through grade 12.

Permissible activities allowed under this component

States may provide eligible students in certain grade levels (preschool through grade 12) with a continuing system of mentoring and advising that is coordinated with the federal and state community service initiatives. Permissible activities under this component may include

- ◊ after-school and summer-school tutoring,
- ◊ assistance in obtaining summer jobs,
- ◊ career mentoring, and
- ◊ academic counseling.

Participating students must agree to achieve certain academic milestones

Participating eligible students may enter an agreement under which they agree to achieve certain academic milestones (for a time period established by each state) in exchange for receiving tuition assistance. Such milestones would include completing a prescribed set of courses and maintaining satisfactory academic progress.

Activities must be designed to ensure high school completion and college enrollment of at-risk children.

States may provide pre-freshman summer programs that

- ◊ are at institutions of higher education with programs of academic-year supportive services for disadvantaged students;
- ◊ assure the participation of disadvantaged students;
- ◊ provide summer instruction in remedial, developmental, or supportive courses, or summer services such as counseling, tutoring, or orientation;
- ◊ provide grant aid to cover pre-freshman summer costs; and
- ◊ assure that participating eligible students will receive financial aid during each academic year they are enrolled at the participating institution after the pre-freshman summer.

Providers of early intervention activities

Early intervention activities may be provided by community-based organizations, schools, public and private agencies, nonprofit and philanthropic organizations, businesses, and other organizations the Secretary deems appropriate.

The state must treat as a priority student for its early intervention component any student in preschool through grade 12 who is eligible

- ◊ to be counted as attending a Chapter 1 school (a Chapter 1 school serves educationally and economically deprived students),
- ◊ for the National School Lunch Program, or
- ◊ for Aid to Families with Dependent Children assistance.

SCHOLARSHIP COMPONENT

Each participating state must establish or maintain a financial assistance program for participating students under the NEISP Program. States are encouraged to ensure that tuition assistance under the NEISP Program is available for use at any institution of higher education that participates in the Federal Pell Grant Program.

Each state sets the maximum amount a participating student may receive under the NEISP Program. The minimum amount of the scholarship shall not be less than the lesser of

Each state sets its own maximum award

- ◊ 75% of the average cost of attendance for an in-state student enrolled in a four-year program of instruction at a public institution of higher education in the state or
- ◊ the maximum funded Federal Pell Grant for that fiscal year.

STUDENT ELIGIBILITY

To be eligible to receive a scholarship under this component, a student must

- ◊ meet the relevant eligibility requirements contained in Subpart C of the General Provisions regulations (34 CFR Parts 668.31 - 39);
- ◊ be under 22 years of age at the time of the first grant award;
- ◊ receive a high school diploma or its recognized equivalent on or after January 1, 1993;
- ◊ be enrolled or accepted for enrollment at an institution of higher education that is located within the state (however, a state may offer scholarship portability for recipients who attend institutions outside the state); and

- have participated in the state early intervention component under the NEISP Program or, at the option of the state, have successfully participated in either an Upward Bound program or another early intervention program comparable to the NEISP Program.

A summary of the relevant requirements from the General Provisions regulations can be found on page 9 - 6 of this chapter.

If a state includes academic milestones in a student agreement and requires the student to meet those milestones to be eligible for a scholarship, then the student must have met or exceeded the milestones to receive the scholarship. The student agreement is made under the NEISP early intervention component. Under this agreement, the state will provide postsecondary tuition assistance to a student during a period of time to be established by the state if the student agrees to achieve certain academic milestones.

Consideration of need and low-income status

Federal Pell Grant recipients with the greatest financial need receive priority consideration in receiving aid under this component. In determining the greatest financial need, a state may rank students according to their Expected Family Contributions (EFCs) or rank them according to their need as prioritized under the state's criteria for low-income students. (If the state chooses to use its own criteria for ranking purposes, those criteria must first be approved by the Department.)

PACKAGING AID

Tuition assistance under this program is not to be considered for the purpose of awarding SFA aid. However, the total of SFA aid and scholarship aid awarded under this component must not exceed the student's cost of attendance.

ALLOTMENT TO STATES

Under full funding, the program statute authorizes $200 million for both components of the NEISP Program. However, in a fiscal year when funding is less than $50 million, the Secretary allots funds to states on a competitive basis if funds are available for new awards. During 1998-99, there will be no federal funding available for new states. (See page 9-28.)

A state may not use less than 25% or more than 50% of its federal allotment for the early intervention component of the NEISP Program. The 50% maximum may be waived for a state that can demonstrate that it has other ways of providing students' tuition assistance.

EVALUATION

Each participating state must evaluate its early intervention component every two years according to standards and requirements established by the Secretary. The report summarizes and evaluates the state's activities and the performance of its student participants.

ADDITIONAL INFORMATION

As stated previously, only the nine currently funded states (listed on the bottom of page 28) are participating during 1998-99, and no new state applications will be accepted. Therefore, there is no listing of agencies in Section 5 of this chapter as there is for each of the other programs covered in Chapter 9. Direct any questions about NEISP Program procedures to the program office at 202-708-8242.

section 5

Directory of State Agencies

Listed below are the agencies responsible for administering the SSIG, Paul Douglas Teacher Scholarship, and the Robert C. Byrd Honors Scholarship programs in each state, along with a contact person for each agency. The SSIG agency is listed first, the Douglas agency (in states where the Douglas program operates) is listed second, and the Byrd agency third. In many of the states, the SSIG and Douglas programs are administered by the same agency, while the Byrd program is administered by either the State Education Agency (SEA) or by a different agency. The contact for each agency is usually the program official, designated as such with a "(P)" in front of his or her name. When there is no program official, the official listed will be the senior agency official. That person will be designated as such with an "(A)" in front of his or her name. Individual students should contact the financial aid administrator at their schools to resolve any eligibility issues. Financial aid administrators may use the contacts on the following pages to resolve any other programmatic or technical issues that come up.

ALABAMA

Alabama Commission on Higher Education
P.O. Box 302000
Montgomery, Alabama 36130-2000
334-242-2274

SSIG and Douglas Contact

(P) Ms. Jan B. Hilyer
Assistant Director for Grants
and Scholarships

Byrd Program:

State Department of Education
Gordon Persons Office Building
50 North Ripley Street
Montgomery, Alabama 36130-3901

Byrd Contact:

(P) Mr. Frank Heatherly
334-242-8082

ALASKA

Alaska Commission on
Postsecondary Education
3030 Vintage Boulevard
Juneau, Alaska 99801-7109
907-465-6741

SSIG Contact:

(P) Mr. Mike Maher
Director, Student Financial Aid

Douglas Contact:

(P) Ms. Diane Barrans
Programs Director

Byrd Program:

State Department of Education
Goldbelt Place
801 West 10th Street, Suite 200
Juneau, Alaska 99801-1894

Byrd Contact:

(P) Ms. Rosemary Hagevig
Program Coordinator
907-465-8715

ARIZONA

Arizona Commission for
Postsecondary Education
2020 North Central Ave., Suite 275
Phoenix, Arizona 85004-4503

SSIG and Douglas Contact:

(P) Dr. Louie R. Bustillo
Program Compliance Administrator
602-229-2531

Byrd Program:

State Department of Education
1535 West Jefferson
Phoenix, Arizona 85007

Byrd Contact:

(P) Ms. Sharon Balster
Special Project Assistant
602-542-3053

ARKANSAS

Arkansas Department of Higher Education
114 East Capitol
Little Rock, Arkansas 72201-3818
501-371-2000

SSIG Contact:

(P) Mr. Phil Axelroth
Assistant Coordinator of
Student Aid

Douglas Contact:

(P) Ms. Lillian K. Williams
Assistant Coordinator of
Student Financial Aid

Byrd Program:

Arkansas Department of Education
4 State Capitol Mall, Room 304A
Little Rock, Arkansas 72201-1071
501-682-4474

(P) Dr. Charles D. Watson
Math and Special Projects
Specialist

CALIFORNIA

California Student Aid Commission
Suite 500, P.O. Box 510845
Sacramento, California 94245-0845
916-445-0880

SSIG Contact:

(P) Ms. Jacqueline Tsang
Deputy Director

Douglas Contact:

(P) Mr. Robert Ruiz
Initial Processing Manager
916-322-8801

Byrd Program:

California Student Aid Commission
1515 S Street, North Bldg.
Suite 500, P.O. Box 510845
Sacramento, California 94245-0621

(P) Ms. Cathy Mistler
Coordinator, Specialized Programs
916-323-2146

COLORADO

Colorado Commission on Higher Education
Colorado Heritage Center
1300 Broadway, 2nd Floor
Denver, Colorado 80203
303-866-2723

SSIG and Douglas Contact:

(P) Mr. John P. Ceru
Administrator,
Colorado Student Aid Programs

Byrd Program:

State Department of Education
201 East Colfax Avenue
Denver, Colorado 80203-1705

Byrd Contact:

(P) Ms. Karen L. Stroud
Chief of Staff
303-866-6822

CONNECTICUT

SSIG, Douglas, & Byrd Program:

Connecticut Department of
Higher Education
61 Woodland Street
Hartford, Connecticut 06105-2391
860-566-3910

(P) Mr. John J. Siegrist
Director

DELAWARE

Delaware Higher Education Commission
Carvel State Office Building
820 North French Street, 4th Floor
Wilmington, Delaware 19801
302-577-3240

SSIG Contact:

(P) Ms. Maureen Laffey
Associate Director

Douglas Contact:

(P) Ms Nancy Holm
Higher Education Analyst

Byrd Program:

State Department of Public Instruction
Townsend Building, #279
Federal & Lockerman Streets
Post Office Box 1402
Dover, Delaware 19903-1402

Byrd Contact:

(P) (Vacant)
Education Associate
Postsecondary Program Approval
302-739-5622

DISTRICT OF COLUMBIA

Department of Human Services
Office of Postsecondary Education,
Research and Assistance
2100 Martin Luther King, Jr. Avenue, SE
Suite 401
Washington, D.C. 20020

SSIG Contact:

(P) Ms. Shelia Kornegay
Program Manager (Acting)
D.C. SSIG Section
202-727-3688

Douglas Contact:

(P) Ms. Laurencio O. Henderson
Student Financial Assistance Specialist
202-727-3685

Byrd Program:

District of Columbia Public Schools
Division of Student Services
450 Lee Street, N.E.
Washington, D.C. 20019
202-724-4222

(P) Ms. Michon Peck
Community Relations &
Planning Office

FLORIDA

Florida Department of Education
Office of Student Financial Assistance
State Programs - 255 Collins Bldg.
Tallahassee, Florida 32399-0400

SSIG and Douglas:

(P) Dr. M. Elizabeth Sweeney
Director, State Programs
904-487-0049

Byrd Contact:

(P) Ms. Marsha Colston
904-487-1080

GEORGIA

Georgia Student Finance Authority
State Loans & Grants Division
2082 East Exchange Place
Suite 245
Tucker, Georgia 30084
770-414-3000

SSIG and Douglas Contact:

(P) Mr. William A. Flook
Program Officer

Byrd Program:

State Department of Education
2054 Twin Towers East
205 Butler Street
Atlanta, Georgia 30334
404-657-0183

(P) Mr. Joe Scarle
Administrator

HAWAII

Hawaii State Postsecondary
Education Commission
2444 Dole Street, Room 209
Honolulu, Hawaii 96822-2394
808-956-8207

SSIG Contact:

(P) Mr. Carl H. Makino
Administrative Assistant to
the Commission

Douglas Program:

Not participating

Byrd Program:

Hawaii Department of Education
2530 10th Avenue
Room A 12
Honolulu, Hawaii 96816
808-733-9124

(P) Ms. Diana Helber
Administrator, Byrd Scholarship
Program

IDAHO

Idaho State Board of Education
P.O. Box 83720
Boise, Idaho 83720-0037
208-334-2270

SSIG Contact:

(P) Mr. Keith Hasselquist
Chief Fiscal Officer

Douglas Contact:

(P) Mr. Bill Hargrove
Public Affairs Officer

Byrd Program:

State Department of Education
650 West State Street
Boise, Idaho 83720

Byrd Contact:

(P) Ms. Sally Keister Tiel
Coordinator
208-334-2113

ILLINOIS

Illinois Student Assistance Commission
1755 Lake Cook Road
Deerfield, Illinois 60015-5209
847-948-8500

SSIG Contact:

(P) Ms. Christine Peterson
Director, Program Services

Douglas Contact:

(P) Dr. Catherine E. Whitcomb
Manager, Scholarships & Grant Service

Byrd Program:

State Board of Education
100 North First Street
Springfield, Illinois 62777

Byrd Contact:

(P) Ms. Brenda Westmoreland
847-948-8500

INDIANA

State Student Assistance
Commission of Indiana
150 West Market Street
Suite 500
Indianapolis, Indiana 46204-2811
317-232-2350

SSIG Contact:

(P) Ms. Pat Bright
Grants Coordinator

Douglas Contact:

(P) Ms. Yvonne Heflin
Director of Special Programs

Byrd Program:

Indiana Department of Education
Room 229 - State House
Center for School Improvement
and Performance
Indianapolis, Indiana 46204-2798
317-232-2350

(P) Ms. Yvonne Heflin
Director of Special Programs

IOWA

Iowa College Student Aid Commission
200 10th Street - 4th Floor
Des Moines, Iowa 50309-3609
1-800-383-4222

SSIG Contact:

(P) Ms. Laurie Wolf
Director, Administrative Support

Douglas Contact:

(P) Ms. Laurie A. Wolf
Director of Special Projects

Byrd Program:

State Department of Education
Grimes State Office Building
Bureau of Instruction and Curriculum
Des Moines, Iowa 50319-0146

(P) Ms. Laurie Wolfe
Director of Special Projects
515-242-6716

KANSAS

Kansas Board of Regents
700 S. W. Harrison
Suite 1410
Topeka, Kansas 66603-3760
913-296-3517

SSIG and Douglas Contact:

(P) Ms. N. Christine Crenshaw
Director of
Student Financial Aid

Byrd Program:

State Department of Education
Kansas State Education Building
120 East Tenth Street
Topeka, Kansas 66612-1103
913-296-4876

(P) Mr. Bob Gast
Director

KENTUCKY

Kentucky Higher Education
Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601-4323
1-800-928-8926

SSIG Contact:

(P) Ms. Linda N. Renschler
Branch Manager, Student
Aid Programs

Douglas Contact:

(P) Ms. Rebecca Byford
Program Coordinator

Byrd Program:

State Department of Education
500 Mero Street
1919 Capital Plaza Tower
Frankfort, Kentucky 40601
502-564-3421

(P) Ms. Donna Melton
Program Coordinator

LOUISIANA

Louisiana Student Financial
Assistance Commission
Louisiana Office of Student
Financial Assistance
Post Office Box 91202
Baton Rouge, Louisiana 70821-9202

SSIG and Douglas Contact:

(P) Ms. Winona Walker Kahao
Director, Scholarships
and Grants Division
1-800-259-5626

Byrd Program:

State Department of Education
Post Office Box 94064
626 North 4th Street, 12th Floor
Baton Rouge, Louisiana 70804-9064
504-342-2098

(P) Ms. Phyllis Trisler
Administrative Assistant

MAINE

Finance Authority of Maine
Post Office Box 949
Augusta, Maine 04332-0949
207-623-3263

SSIG Contact:

(P) Ms. Rochelle A. Bridgham
Program Manager

Douglas Contact:

(P) Mrs. Helen Renko-Flanagan
Program Manager

Byrd Program:

Finance Authority of Maine
Higher Education Services
Maine Education Assistance Division
State House Station #119
One Weston Court
Augusta, Maine 04330
207-287-2183

(P) Mrs. Helen Renko-Flanagan
Program Administrator

MARYLAND

Maryland Higher Education Commission
Jeffrey Building
16 Francis Street
Annapolis, Maryland 21401-1781
410-974-5370

SSIG Contact:

(P) Ms. Linda J. Weippert
Director, State Scholarship
Administration

Douglas Contact:

(A) Mr. Leslie Bennett
Program Manager
Non-Need-based Grants
410-974-5370

Byrd Program:

Maryland State Department of Education
200 West Baltimore Street
Baltimore, Maryland 21201-2595

Byrd Contact:

(P) Mr. William Cappe
Program Administrator
410-767-0480

MASSACHUSETTS

SSIG and Douglas Programs:

Massachusetts Board of Higher Education
330 Stuart Street, 3rd Floor
Boston, Massachusetts 02116
617-727-9420

(P) Ms. Clantha McCurdy
Director of Financial Aid

Byrd Program:

State Department of Education
350 Main Street
Malden, Massachusetts 02148-5023
617-388-3300

(P) Mr. Jack Conlon
Education Specialist III

MICHIGAN

Michigan Higher Education
Assistance Authority
Office of Scholarships and Grants
Post Office Box 30462
Lansing, Michigan 48909-7962
517-373-3394

SSIG and Douglas Contact:

(A) Mr. H. Jack Nelson
Executive Director

Byrd Program:

State Department of Education
Post Office Box 30008
608 West Allegan Street
Lansing, Michigan 48909
517-373-3394

(P) Ms. Bobbi Bates
Director, Scholarships and
Grants Programs

MINNESOTA

Minnesota Higher Education
Services Office
Suite 400, Capitol Square Bldg.
550 Cedar Street
St. Paul, Minnesota 55101-2292

SSIG Contact:

(P) Ms. Virginia Dodds
Manager, State Grant
Programs
1-800-657-3866

Douglas Contact:

(P) Ms. Virginia Dodds
Administrative Associate, Financial
Aid Division
612-296-3974

Byrd Program:

State Department of Education
712 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612-282-5088

(P) Ms. Mara Dehn-Altstatt
Grant Analyst
Office, State, and Federal Programs

MISSISSIPPI

Mississippi Postsecondary Education
Financial Assistance Board
3825 Ridgewood Road
Jackson, Mississippi 39211-6453
601-982-6663

SSIG Contact:

(P) Ms. Dottie Strain
interim Director

Douglas Contact:

(P) Ms. Kay S. Coleman
Program Administrator

Byrd Program:

State Department of Education
Post Office Box 771
550 High Street, Room 501
Jackson, Mississippi 39205-0771
601-359-3482

(P) Ms. Jan Guyse
Coordinator

MISSOURI

Missouri Coordinating Board for
Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109-5717
573-751-2361

SSIG and Douglas Contact:

(P) Mr. Dan Peterson
Senior Associate, Student
Financial Aid Programs

Byrd Program:

State Department of Elementary
and Secondary Education
Post Office Box 480
205 Jefferson Street, Sixth Floor
Jefferson City, Missouri 65102
573-751-2931

(P) Dr. Celeste Ferguson
Assistant Commissioner

MONTANA

SSIG Program:

Montana University System
2500 Broadway, P.O. Box 203101
Helena, Montana 59620-3101
406-444-6570

(P) Ms. Arlene Hannawalt
Interim Director

Douglas Program:

Montana University System
Montana Guaranteed Student
Loan Program
2500 Broadway
Helena, Montana 59620-3101
406-444-6570

(P) Ms. Wendy Kliment
Program Assistant

Byrd Program:

State Office of Public Instruction
State Capitol, Room 106
Helena, Montana 59620

Byrd Contact:

(P) Mr. Michael Hall
Gifted and Talented Education
Specialist
406-444-4422

NEBRASKA

SSIG Program:

Coordinating Commission
for Postsecondary Education
Post Office Box 95005
Lincoln, Nebraska 68509-5005
402-471-2847

(P) Ms. Christine Denicola
Assistant Fiscal Officer

Douglas and Byrd:

Nebraska Department of Education
Post Office Box 94987
301 Centennial Mall South
Lincoln, Nebraska 68509-4987

Douglas and Byrd Contact:

(P) Ms. Sue Roberts
Program Administrator
402-471-2789

NEVADA

Nevada Department of Education
700 East Fifth Street
Carson City, Nevada 89701-5096

SSIG Contact:

(P) Ms. Linda J. Smith
Program Officer
Administrative and Fiscal Services
702-687-3100

Douglas Program:

Not participating

Byrd Program:

State Department of Education
700 East Fifth Street
Carson City, Nevada 89701

Byrd Contact:

(P) Ms. Wendy Wiggs-Stokke
702-687-9228

NEW HAMPSHIRE

New Hampshire Postsecondary
Education Commission
2 Industrial Park Drive
Concord, New Hampshire 03301-8512
603-271-2555

SSIG and Douglas Contact:

(P) Ms. Judith Knapp
Program Director

Byrd Program:

State Department of Education
State Office Park South
101 Pleasant Street
Concord, New Hampshire 03301
603-271-3842

(P) Mr. Robert T. Kennedy
Administrator

NEW JERSEY

State of New Jersey
Office of Student Financial Assistance
4 Quakerbridge Plaza CN 540
Trenton, New Jersey 08625
1-800-792-8670

SSIG and Douglas Contact:

(P) Mr. Dennis P. Levy
Director, Grants and Scholarships

Byrd Program:

State Department of Education
CN500, 100 Riverview Plaza
Trenton, New Jersey 08625-0500
609-984-6314

(P) Ms. Susan E. Sliker
Program Administrator

NEW MEXICO

SSIG Program:

New Mexico Commission on
Higher Education
1068 Cerrillos Road
Santa Fe, New Mexico 87501-4295
505-827-7383

(P) Ms. Lillian Montoya-Rael
Senior Research and Policy Analyst

Douglas Program:

New Mexico Educational
Assistance Foundation
Post Office Box 27020
Albuquerque, New Mexico 87125-7020
505-345-8821

(P) Ms. Paula Rich
Administrative Coordinator

Byrd Program:

State Department of Education
Education Building
300 Don Gaspar
Santa Fe, New Mexico 87501-2786
505-827-6648

(P) Mr. Ralph Paiz
Coordinator

NEW YORK

SSIG Program:

New York State Higher Education
Services Corporation
One Commerce Plaza
Albany, New York 12255

(P) Mr. Francis J. Hynes
Vice President, Grants and Scholarships
518-474-5642

Douglas Program:

New York State Education Department
5B68 Cultural Education Center
Albany, New York 12230

(P) Mr. Douglas Mercada
518-474-5313

Byrd Program:

State Education Department
111 Education Building
Washington Avenue
Albany, New York 12234
518-474-5313

(P) Mr. Douglas Mercada
Bureau Chief for HEOP/
VATEA/Scholarships

NORTH CAROLINA

North Carolina Education
Assistance Authority
Post Office Box 2688
Chapel Hill, North Carolina 27515-2688
919-821-4771

SSIG Contact:

(P) Dr. Steven E. Brooks
Executive Director

Douglas Contact:

(P) Mrs. Julia D. Martin
Manager, Scholarships and
Grant Services

Byrd Program:

State Department of Public Instruction
Education Building
Division of Teacher Education
116 West Edenton Street
Raleigh, North Carolina 27603-1712
919-715-1161

(P) Ms. Linda Johnson
Teacher, Education
Section

NORTH DAKOTA

North Dakota University System
North Dakota Student Financial
Assistance Program
600 East Boulevard Avenue
Bismarck, North Dakota 58505-0230
701-328-4114

SSIG and Douglas Contact:

(P) Ms. Peggy Wipf
Director of Financial Aid

Byrd Program:

State Department of Public Instruction
State Capitol Building, 11th Floor
600 East Boulevard Avenue
Bismarck, North Dakota 58505-0164
701-328-3546

(P) Ms. Lyn Hendrickson

OHIO

SSIG Program:

Ohio Board of Regents
309 South Fourth Street
Columbus, Ohio 43218-2452
1-888-833-1133

(P) Mr. Thomas L. Rudd
Director, State Grants and
Scholarships Department

Douglas & Byrd Programs:

State Department of Education
65 South Front Street, Room 1005
Columbus, Ohio 43266-0308

Douglas Contact:

(P) Ms. Barbara J. Closser
Administrator
614-644-6629

Byrd Contact:

(P) Dr. Marilyn Troyer
Assistant Director
614-466-2761

OKLAHOMA

Oklahoma State Regents for
Higher Education
Oklahoma Tuition Aid Grant Program
PO Box 3020
Oklahoma City, Oklahoma 73101-3020
405-858-1840

SSIG and Douglas Contacts:

(P) Ms. Shiela Joyner
Director

Byrd Program:

State Department of Education
Oliver Hodge Memorial Education Building
2500 North Lincoln Boulevard
Oklahoma City, OK 73105-4599
405-521-4122

(P) Mr. Paul Simon
State Contact
405-521-4908

OREGON

SSIG, Douglas, & Byrd Programs:

Oregon State Scholarship Commission
1500 Valley River Drive, #100
Eugene, Oregon 97401
503-378-5585

SSIG and Douglas Contact:

(P) Mr. James A. Beyer
Director, Grant Programs

Byrd Contact:

(P) Mr. Don Perkins
Education Specialist, Office of
Student Services

PENNSYLVANIA

Pennsylvania Higher Education
Assistance Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444

SSIG Contact:

(P) Ms. Mary Beth Kelly
Vice President, Student Grants
1-800-692-7435

Douglas and Byrd Programs:

Pennsylvania Higher Education
Assistance Agency
1200 North 7th Street
P.O. Box 8114
Harrisburg, PA 17105-8114

Douglas Contact:

(P) Mr. Sam Sobczak
Director, Teacher Education
717-257-5220

Byrd Contact:

(P) Mr. Gerald Bennett
Special Projects Manager
717-783-7975

RHODE ISLAND

Rhode Island Higher Education
Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886
1-800-922-9855

SSIG and Douglas Contact:

(P) Ms. Mary Ann Welch
Director of Program Administration

Byrd Program:

State Department of Education
255 Westminister Street
Providence, Rhode Island 02903

Byrd Contact:

(P) Mr. Rick A. Richards
Education Specialist III
401-277-3126

SOUTH CAROLINA

SSIG Program:

South Carolina Higher Education
Tuition Grants Commission
1310 Lady Street
P. O. Box 12159, Suite 811
Columbia, South Carolina 29211
803-734-1200

(P) Mr. Edward M. Shannon III
Agency Director

Douglas Program:

South Carolina Student Loan Corporation
Post Office Box 21487
Columbia, South Carolina 29221
803-772-8939

(P) Ms. Jennifer Jones-Gaddy
Director of Loan Programs

Byrd Program:

State Department of Education
1114 Rutledge Building
1429 Senate Street
Columbia, South Carolina 29201
803-734-8999

(P) Ms. Kay Rich
Office of Professional Development
803-734-8364

SOUTH DAKOTA

Department of Education
and Cultural Affairs
Office of the Secretary
700 Governors Drive
Pierre, South Dakota 57501-2291
605-773-3134

SSIG, Douglas, and Byrd Contact:

(P) Ms. Roxie Thielen
Financial Aid Administrator

TENNESSEE

Tennessee Student Assistance Corporation
Suite 1950, Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243-0820
615-741-1346

SSIG Contact:

(P) Ms. Naomi Derryberry
Systems Analyst

Douglas Contact:

(P) Mr. Michael C. Roberts
Program Administrator
615-741-1346

Byrd Program:

State Department of Education
100 Cordell Hull Building
Nashville, Tennessee 37219-5335

Byrd Contact:

(P) Mr. Michael Roberts
Program Administrator
615-741-1346
1-800-342-1663 (TN residents only)

TEXAS

Texas Higher Education
Coordinating Board
P. O. Box 12788
Capitol Station
Austin, Texas 78711
1-800-242-3062

SSIG Contact:

(P) Mr. Gustavo DeLeon
Director of Grant Programs

Douglas Contact:

(P) Dr. Bill Stewart
Director of Loan Program Operations
512-483-6340

Byrd Program:

Texas Education Agency
William B. Travis Building
1701 N. Congress Avenue
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Byrd Contact:

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he Federal Student Financial Aid Handbook 1998-99

CHAPTER 7

Federal Family Education Loan Program

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CONTENTS

CHAPTER 10
FEDERAL FAMILY EDUCATION LOAN PROGRAM

INTRODUCTION 1

SECTION 1: BORROWER AND INSTITUTIONAL ELIGIBILITY 3
Student Eligibility Criteria 3
Financial Need 4
Eligibility Criteria Specific to Parent Borrowers 7
Lender of Last Resort 8
Institutional Eligibility 8

SECTION 2: MAKING LOANS 11
The Loan Application 11
Determining the Loan period 13
Certifying a Loan Application 15
Annual Loan Limits 18
Prorated Annual Loan Limits—Subsidized and Unsubsidized Stafford Loans 23
Type of Academic Year and Frequency of Annual Loan Limits 26
Aggregate Loan Limits 29
Increased Loan Limits for Health Education Assistance Loan (HEAL) Students 30

SECTION 3: PAYMENT TO THE BORROWER 31
Definitions of Delivery and Disbursement 31
Financial Aid History and NSLDS 32
Methods of Disbursing and Delivering Loan Funds 32
Disbursement and Delivery Requirements 33
Overawards 37
Credit Balances 38
Late Disbursement 38
Borrower Ineligibility and Return of Funds to Lender 39
Reimbursement Payment Method 41

SECTION 4: REPAYMENT 43
Grace Periods 43
Interest Rates 44
Additional Costs of Borrowing 47
Repayment of Federal Stafford Loans 48
Repayment of Federal PLUS Loans 52
Capitalization of Interest 53
Repayment Disclosure Statement and Billing 53

SECTION 5: DEFERMENT & FORBEARANCE 55
In-School Deferment 56
Unemployment Deferment 56
Economic Hardship Deferment 57
Additional PLUS Loan Deferment 57
Deferment Eligibility Issues 58
Deferment Provision Chart Footnotes 59
Optional forbearance 62
Mandatory Forbearance 64
Administrative Forbearance 65
Mandatory Administrative Forbearance 66
Interest Accruing During Deferment and Forbearance 66

SECTION 6: LOAN DISCHARGE 67
Death and Permanent Disability Discharges 67
Bankruptcy Discharge 67
Other loan cancellation provisions 67
Effect on a Borrower's SFA Eligibility 68
Payments Made after Discharge 70
Repayment by the U.S. Department of Defense 70

SECTION 7: DELINQUENCY AND DEFAULT 71
Consequences of Default 71
Reinstatement of Eligibility after Default 74
Loan Rehabilitation 74

SECTION 8: CONSOLIDATION LOANS 77
Federal Consolidation Loans 77
Applying for a Consolidation Loan 78
Borrower Eligibility for a Federal Consolidation Loan 78
Repayment and Deferment 80

SECTION 9: COUNSELING STUDENTS 83
Entrance Counseling 83
Exit Counseling 88

SECTION 10: DEFAULT REDUCTION MEASURES 93
Loans Included in a School's Cohort Default Rates 93
Calculating Cohort Default Rates 94
Changes Occurring after an Official Cohort Default Rate Calculation 97
Draft Cohort Default Rates 98
Change in Status of a School 99
Consequences Associated with High Official Cohort Default Rates 100
Appeal Procedures 102
General Requirements to Reduce Defaults 105

SECTION 11: ADDITIONAL SCHOOL REQUIREMENTS 109
Refunds 109
Exchange of Information Requirements 110
Recordkeeping, Audits, and Reports 111
Audit Requirements 113
Program Participation Agreement Requirements 114
Prohibited School and Lender Activity 115

APPENDIX: GUARANTY AGENCY DIRECTORY 117

Introduction

Part B of Title IV of the Higher Education Act of 1965 (HEA), as amended, created the guaranteed student loan programs. The Higher Education Amendments of 1992 (P.L. 102-325) reauthorized the HEA and renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program, which now comprises Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS Loans, and Federal Consolidation Loans. The FFEL Program makes these long-term loans available to students attending institutions of higher education; vocational, technical, business, and trade schools; and some foreign schools.

State or private nonprofit guaranty agencies insure FFELs, and these agencies are reimbursed by the federal government for all or part of the insurance claims they pay to lenders. The federal guaranty on a FFEL replaces the security (the collateral) usually required for a long-term consumer loan.

Note that although all FFEL-related guaranty agency procedures and policies must accord with the federal requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency. Appendix A of this chapter contains a list of guaranty agencies and their addresses and telephone numbers.

The different types of FFELs serve different purposes:

- ◊ Both undergraduate and graduate students can receive Stafford Loans.
- ◊ Parents of dependent students can receive PLUS Loans.
- ◊ Federal Consolidation Loans allow a borrower to combine several loans into one to facilitate repayment. The loans may be consolidated if the borrower meets certain conditions. (These conditions and the types of loans that may be consolidated are discussed in Section 5.)

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Specific information on how cohort default rates for prior fiscal years are used for eligibility determinations following a change in status for a school was not available at the time this Handbook went to print. The Department will issue further guidance on this topic at a later date in the form of Dear Colleague Letters. When issued, this up-to-date information will also be available on the SFA BBS.

section 1 Borrower and Institutional Eligibility

In general, a student must be enrolled at least half time as a regular student in an eligible program and must meet the school's satisfactory academic progress standards to be eligible for a Federal Stafford or to benefit from a Federal PLUS Loan (that is, for his or her parents to receive a PLUS Loan). Chapter 2 covers in detail the student eligibility requirements that are common to all Student Financial Assistance (SFA) programs, and Chapter 3 covers in detail the institutional eligibility requirements of the SFA programs. Only those borrower and institutional eligibility requirements that are specific to the Federal Family Education Loan (FFEL) Program are noted here.

STUDENT ELIGIBILITY CRITERIA

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all SFA programs (explained in Chapter 2).

There are three exceptions to the general SFA eligibility requirement that a student be enrolled or be accepted for enrollment in a degree or certificate program.

Coursework necessary to enroll in degree or certificate program

- ◊ An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in a degree or certificate program and if the student is enrolled at least half time. This category of students may borrow at the first-year undergraduate loan level. Loan limits are explained in the chart on page 10-22.

Coursework necessary to enroll in graduate or professional program

- ◊ An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in a graduate or professional program and if the student is enrolled at least half time. This

category of students may borrow at the fifth-year undergraduate loan level.

- The school that certifies a student's loan application using this exception must document that the coursework is needed before the student can be admitted into a degree or certificate program.

Non-degree teacher certification programs

- ◊ A student enrolled at least half time in a program required by a state for teacher certification or recertification at the elementary or secondary level may apply for a Stafford Loan without being enrolled as a regular student. The school's records must indicate that the courses taken are required by the state where the student will be teaching. As noted previously, such students may borrow at the fifth-year undergraduate loan level.

Medical internships and residencies

A student is **ineligible** to receive a Stafford Loan or a Federal Perkins Loan (see Chapter 6) while in a medical internship or residency program, unless the internship is part of the school's degree program. This restriction does **not** apply to students in dental internship programs.

Need for subsidized Federal Stafford Loan = Cost of Attendance - Expected Family Contribution - Estimated Financial Assistance

As stated in Chapter 2, a student who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. Note that the parents of such a student may not receive a PLUS Loan for the student's benefit.

FINANCIAL NEED

To qualify for a subsidized[1] Stafford Loan, a student must have financial need. A borrower unable to qualify for a need-based Stafford Loan may apply for an unsubsidized Stafford Loan. Also, a student able to qualify for only a part of his or her subsidized Stafford Loan limit may apply for an unsubsidized Stafford Loan to cover the difference between his or her loan limit and the subsidized amount for which he or she is eligible. Basically, a student's need for a subsidized Federal Stafford Loan is his or her cost of attendance (COA) minus his or her Expected Family Contribution (EFC) minus his or her estimated financial assistance (EFA).

The student's EFA is the amount of other aid he or she will receive for the enrollment period covered by the loan. See Chapter 2, Section 2 for more information on determining a student's financial need. Section 2 of this chapter provides information on loan limits.

[1] A subsidized loan qualifies for a federal interest subsidy during in-school status, grace periods, and authorized deferment periods. An unsubsidized loan does not qualify for a federal interest subsidy during any period.

An unsubsidized Stafford Loan is not need-based, but it cannot exceed the student's cost of attendance less the total of EFA, which includes the borrower's subsidized Stafford Loan eligibility.

A student does not have to demonstrate financial need to benefit from a PLUS Loan his or her parents borrow.

Because an independent student's parents may not obtain a PLUS Loan on the student's behalf, an independent student has unsubsidized loan borrowing limits in addition to the subsidized limits. The student does not need to demonstrate financial need to receive this additional amount. See Chapter 2 for information on determining dependency.

If, due to circumstances such as an adverse credit history (see page 10-7), a dependent undergraduate student's parents are unable to borrow a PLUS Loan, the school may allow the student to obtain an unsubsidized Stafford Loan under the independent student borrowing limits. Again, the student does not need to demonstrate financial need to receive this additional amount.

As explained in Chapter 2, because students who are members of certain religious organizations are considered to have no financial need for SFA program purposes, such a student is not eligible for need-based SFA funds. He or she may, however, be eligible for an unsubsidized Stafford Loan or an unsubsidized Consolidation Loan, or, if dependent, he or she may be eligible to benefit from a PLUS Loan. (PLUS Loans are also unsubsidized.)

A school that participates in the Federal Pell Grant Program must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. If the student is eligible for a Pell Grant, the school cannot certify a loan until the student has applied for a Pell Grant for the same enrollment period that will be covered by the loan.

In addition, a school cannot certify an unsubsidized Stafford Loan for a student without first determining his or her need for a subsidized Stafford Loan. If a student has need for a subsidized Stafford Loan of less than $200, a school can choose to certify only an unsubsidized Stafford Loan that includes the amount of the student's need, rather than certifying a subsidized loan of less than $200 and an unsubsidized loan for the remainder of the student's borrowing limit. Details on certifying loans are provided in Section 2 of this chapter.

No need determination necessary for PLUS Loans

Generally, a school can certify a PLUS Loan for a parent **without** first determining the benefitting student's Pell Grant and subsidized Stafford Loan eligibility. In fact, calculation of a student's EFC is not required for

Exception—SAR or ISIR necessary for PLUS Loan late disbursement—34CFR 668.164(g)(2)(i)

making a PLUS Loan. There is one exception: A school cannot make a late disbursement of a PLUS Loan unless the school received a *Student Aid Report* (SAR) or an *Institutional Student Information Record* (ISIR) for the benefitting student before the date the student graduated, withdrew, was expelled, or dropped below half-time enrollment. The SAR or ISIR must contain an official EFC.

Offsetting a Student's Expected Family Contribution (EFC)

Loans made on behalf of a student under PLUS, unsubsidized Stafford Loans, loans made by a school to assist the student, and state-sponsored and private education loans all can be used to offset (substitute for) part or all of the student's EFC for Stafford Loans and other need-based SFA rograms. The following example shows how nonfederal aid may be substituted for the EFC in determining a student's financial aid package.

> Gordon, a student at Bonner's Mill College, has a COA of $7,000 and an EFC of $1,500. Gordon's financial aid includes a Federal Pell Grant of $1,500, an FSEOG of $500, a private scholarship of $500, and a state-sponsored loan of $2,000. Subtracting his EFC (1,500) and his EFA ($4,500) from his COA ($7,000) would appear to leave him with unmet need of $1,000.
>
> | | COA | | EFC | | EFA | | Unmet Need |
> |---|---|---|---|---|---|---|---|
> | | $7,000 | - | $1,500 | - | $4,500 | = | $1,000 |
>
> The EFC is replaced in the calculation by the EFC offset. The $1,500 of the state-sponsored loan that is used to offset the EFC is no longer considered part of the EFA. Thus, the EFA is reduced to $3,000, and Bonner's Mill may approve Gordon's subsidized Stafford Loan application for $2,500.
>
COA		EFC Offset		Remaining EFA		Unmet Need
$7,000	-	$1,500	-	$3,000	=	$2,500
>
> Note that because the $2,000 state loan is greater than the EFC, the remaining $500 of the state loan cannot be counted towards the EFC and must remain part of the EFA. It is very important to note that although the EFC is being offset by a state loan, the EFC itself does not change. The offset causes a reduction in EFA, not in the EFC. Therefore, the student's Pell Grant eligibility is not affected by this offset. See Chapter 2 for more information on EFA and financial need.

The financial aid administrator may want to establish need for the subsidized Stafford Loan before other loans are figured into the aid package—and the financial aid administrator must do so in the case of unsubsidized Stafford and PLUS loans—to enable the student to receive the maximum subsidized Stafford Loan amount.

ELIGIBILITY CRITERIA SPECIFIC TO PARENT BORROWERS

Definition of parent for PLUS Loan purposes

For the purpose of determining PLUS Loan eligibility, a parent is a student's natural mother or father, adoptive parent, legal guardian, or the spouse of a parent who has remarried, if that spouse's income and assets would be taken into account when calculating the dependent student's EFC.

A parent may receive a PLUS Loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition.

A parent must meet the same citizenship and residency requirements as a student. Also, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS Loan. (Note that the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for SFA funds.) See Chapter 2 for more information on these general eligibility criteria.

To receive a PLUS Loan, a parent must provide his or her Social Security Number as well as that of the student on whose behalf the parent is borrowing. Like a student borrower, a parent borrower must also submit a Statement of Educational Purpose. He or she does not, however, have to complete a Statement of Selective Service Registration.

Adverse credit history

A parent with an adverse credit history is prohibited from obtaining a PLUS Loan. A lender must obtain a credit report on each applicant for a loan from at least one national credit bureau. Unless the lender determines that extenuating circumstances exist, the lender must consider the applicant to have an adverse credit history if

- ◊ he or she is 90 days or more delinquent on the any debt; or
- ◊ during the 5 years preceding the date of the credit report, he or she has been determined to be in default on a debt, his or her debts have been discharged in bankruptcy, or he or she has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an SFA debt.

A lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. However, a parent cannot be rejected for a PLUS Loan on the basis of having no credit history. The absence of a credit history **cannot** be construed as an adverse credit history.

The Bankruptcy Reform Act of 1994 (enacted October 22, 1994) prohibits a lender from discriminating, on the basis of past bankruptcy filing or discharge only, against a borrower applying for a student loan. However, past bankruptcy can be included as a factor in determining the future creditworthiness of a loan applicant. These provisions are also described in Section 6 of this chapter.

A parent with an adverse credit history may secure an endorser without an adverse credit history in order to qualify for a PLUS Loan. The endorser for this purpose may not be the dependent student for whom the parent is borrowing. Instead of securing an endorser, a parent may appeal a determination of adverse credit history to the lender by documenting extenuating circumstances. The lender has the final decision on whether or not to make a loan to the parent.

LENDER OF LAST RESORT

A student who is otherwise eligible for a subsidized Stafford Loan and, after not more than two rejections, has been unable to find a lender willing to make such a loan, should contact the guaranty agency in his or her state of residence or the guaranty agency in the state in which the student's school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, nor is it required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards. Each guaranty agency is required to develop rules and procedures for its LLR program.

INSTITUTIONAL ELIGIBILITY

In order to participate in the FFEL Program, a school must meet the SFA Program eligibility criteria discussed in Chapter 3. Only institutional eligibility issued specific to the FFEL Program are discussed here.

Only a school accredited as an institution of higher education offering a graduate-level program may certify FFELs at the graduate level for students unconditionally accepted into a graduate or professional program. A school offering programs **exclusively** for study by correspondence is not eligible to participate in the FFEL Program.

If a school is notified that it has lost its eligibility to participate in the FFEL Program and the school does not intend to appeal the decision, it must immediately inform all current and **prospective** students of its loss of eligibility. The school must also explain that it can no longer certify FFELs

for students. If the school appeals its loss of eligibility within the required time frame, the school may continue certifying FFELs during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter. (See Section 9 for more information about the appeal process.)

If a school loses eligibility or decides not to participate in FFEL Program, reinsurance of loans previously disbursed will not be affected, and interest subsidy will continue as long as the student maintains his or her required enrollment status. The student's grace period and eligibility for in-school status and in-school deferment also will not be affected by a school's loss of eligibility. If a school has delivered the first disbursement of a loan to a student before the loss of eligibility, the school may deliver the remaining disbursements. However, if a school loses eligibility before it delivers any loan proceeds to the student, the school is not permitted to deliver the loan proceeds to the student. (See Section 10 for information about how excessive default rates affect school eligibility.)

Foreign medical schools—34CFR 600.56(c)

If a foreign medical school loses eligibility to participate in the FFEL Program, its students who were continuously enrolled at the institution before the loss of eligibility may receive FFELs through the next academic year.

If a school plans to withdraw from participation in the FFEL Program, it must provide both the appropriate guaranty agency or agencies and the Department with written notification of its decision. Once the effective date of withdrawal has been established, the school is prohibited from delivering to a student any loan proceeds received from a lender and must return the loan proceeds to the lender within 30 days. To find out more about the procedures required for withdrawal from the FFEL Program, call 202/708-4906.

Note that if the first disbursement of a Federal Stafford Loan was delivered to the student or credited to the student's account prior to the school's loss of eligibility or withdrawal from participation, the school may deliver subsequent disbursements of that Federal Stafford Loan to satisfy any unpaid commitment made to a student for the period of enrollment for which the Stafford Loan was made.

If a school has never participated in the SFA Programs but wants to be considered an eligible school for deferment purposes only, the school must prove that it meets the Department's definition of an eligible school

before the school may certify borrower deferment forms. To find out more about eligibility for deferment purposes, write to the following address:

U.S. Department of Education
Initial Participation Branch, Room 3915
600 Independence Avenue, SW
Washington, D.C. 20202-5244

Applications to request deferment approval should be sent to:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, D.C. 20202-4805

Making Loans

THE LOAN APPLICATION

To receive a Federal Stafford Loan, a student must complete a *Free Application for Federal Student Aid* (FAFSA) and a loan application. A student may obtain an application from a guaranty agency, lender, or school that participates in the Federal Family Education Loan (FFEL) Program.

To receive a Federal PLUS Loan, a parent must complete a PLUS Loan application. The student benefitting from the PLUS Loan must complete a portion of the application, but is not required to complete a FAFSA unless applying for additional aid under the Student Financial Assistance (SFA) programs, unless a late disbursement will be made (see pages 10-5 and 10-6).

There is a common loan application/promissory note that the U.S. Department of Education has approved. A student must use this form to apply for a subsidized and/or unsubsidized Federal Stafford Loan and a common loan application/promissory note that a parent must use to apply for a PLUS Loan.

Applications/promissory notes that a school receives may or may not have a guaranty agency's name in the upper right corner. Even if a guaranty agency's name appears in the upper right corner of the form the student uses, another guaranty agency may process the form and insure the loan.

If a guaranty agency uses the common form as part of a renewal application process, borrower information and a prior lender's name and code number may be preprinted on the form.

A guaranty agency may use an electronic application process. If the guarantor chooses to do so, it must require that the borrower complete the common loan application data elements that the agency did not receive from the FAFSA. The guaranty agency must also provide the borrower

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with a promissory note and notification of the borrower's rights and responsibilities.

Schools should direct any questions about the common loan application/promissory note or electronic application processing to the guaranty agency or particular agencies with which it works.

If a student is unable to find a lender willing to make a Stafford Loan, he or she should contact the guaranty agency that serves his or her state of residence for assistance in finding a lender of last resort (LLR). See page 10-8 for more information about the LLR.

A Stafford Loan application comprises three sections: one to be filled out by the borrower, one to be filled out by the school, and one to be filled out by the lender. A PLUS Loan application has these three sections and a section that requires the student who is benefitting from the loan to provide information.

The Borrower's Portion of the Application

Some of the information a borrower must provide are his or her name, address, date of birth, Social Security Number, and driver's license number, as well as two personal references. The borrower may provide a lender's name if he or she has a preference because the law gives a borrower a choice of a lender. The borrower must read and sign the promissory note. If the borrower previously borrowed or the agency uses electronic application processing, some of this information may be preprinted on the application.

The School's Portion of the Application

School determines eligibility

The school must provide the student's cost of attendance (COA), Expected Family Contribution (EFC), and estimated financial assistance (EFA). The school must also determine the loan period. The EFC appears on the Student Aid Report (SAR) that the student receives after completing and submitting a FAFSA for processing. Determining a student's COA, EFA, loan period, and recommended loan amount based on annual and aggregate limits is the financial aid administrator's responsibility. The financial aid administrator is also expected to confirm the student's dependency status and Social Security Number. **The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan.** (An eligible foreign school is also responsible for determining eligibility, although such a school generally contracts with a guaranty agency or a consultant for assistance.)

Chapter 2 provides information on the EFC and on determining a student's dependency status and COA.

The Lender's Portion of the Application

The lender reviews the Stafford Loan or PLUS Loan application and completes the lender portion of the loan application.

A lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or handicapped status. However, a lender may decline to make loans to students who do not meet the lender's credit standards or to students at a particular school, or to students enrolled in a particular program of study. A lender may decline to make FFELs for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

A lender may not approve a loan for more than the least of the following amounts:

- ◊ the amount the borrower requests
- ◊ the student's unmet financial need (in the case of a subsidized loan)
- ◊ the student's COA
- ◊ the borrower's maximum borrowing limit (explained later in this section)

The lender must receive approval of the guaranty agency for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. A lender or guaranty agency may not make or guarantee a Stafford Loan or PLUS Loan until it reviews its records and finds no indication that the applicant (and the student, if the loan is a PLUS) is in default on an SFA loan made for attendance at **any** school or owes a refund on an SFA grant received at **any** school. Once guaranty agency approval is obtained, the lender will send the Stafford Loan proceeds (or the first disbursement of the proceeds) to the school's financial aid office for delivery to the student; or the lender will send the proceeds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan proceeds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower. See Section 3 for more information on loan disbursement.

DETERMINING THE LOAN PERIOD

The period of enrollment or loan period to which the application refers is the period for which the FFEL is intended. This period must coincide with one or more of a school's academic terms (such as academic year,

semester, trimester, quarter or nonstandard term) for schools that use terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year. The COA, EFA, and EFC provided on the application must relate to the loan period.

The **minimum** period for which a school that measures academic progress in credit hours and uses terms may certify a loan is a single academic term. For a clock-hour school or a credit-hour school that does not use terms, the **minimum** period for which the school may certify a loan is

- ◊ the shortest of the following three periods

  1) the academic year as defined by the school in accordance with the General Provisions regulations

  2) the length of the student's program at the school

  3) the remaining portion of the student's program that exceeds the school's academic year.

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period.

Sessions overlapping award years

If a school session overlaps two award years (that is, it begins before July 1 and ends after July 1), the financial aid administrator has the discretion to decide to which of the two award years the loan period will apply. This is the **only** case in which a financial aid administrator has such discretion. If a student in a session that overlaps two award years is also receiving campus-based aid (a Federal Perkins Loan, a Federal Supplemental Educational Opportunity Grant [FSEOG], or Federal Work-Study [FWS]), both the FFEL and the campus-based aid must apply to the same award year.

If a student's loan is certified after the beginning of an enrollment period, the FFEL may retroactively cover the entire period of enrollment, as long as that period of enrollment does not exceed the maximum loan period allowed. For example, suppose a school's academic term begins on September 6 and runs through December 20. A student who is admitted to a program contingent on the receipt of an acceptable academic transcript from a previous school begins the academic term on September 6. The school receives the transcript on October 15. The school may certify the loan for the full period of enrollment (September 6 through December 20). If the student plans on enrolling for the subsequent term and that term is part of the same academic year as the first term, the school may certify the loan to cover the period from September 6 to the end of the second term.

If a school charges tuition and fees to a student at the beginning of a program that is longer than an academic year, the COA for the FFEL Program should include the full amount of the tuition and fees charged in the **period of enrollment** in which the loan is made. For example, suppose a school with a 1,350-clock-hour program defines its academic year as 900 clock hours and charges each student the full $3,000 in tuition and fees at the beginning of the program. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The tuition and fees component of the COA for the first Stafford Loan is $3,000; there is no tuition and fees component in the COA for the second Stafford Loan. The second Stafford Loan must be prorated because the remainder of the program (450 hours) is shorter than the school's academic year. See page 10-23 for more information on loan proration.

Charging tuition and fees at the start of a program longer than an academic year

The amount of a student's subsidized Stafford Loan depends on his or her financial need and borrowing limit. The amount of an unsubsidized Stafford Loan depends on the student's COA, EFA, and borrowing limits. See Section 1 for information on financial need. Loan limits are discussed later in this section. Chapter 2 provides detailed information on COA and EFA. The amount of a parent's PLUS Loan depends on the benefitting student's COA. See page 10-21 for further information.

CERTIFYING A LOAN APPLICATION

During the loan application process, a financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. It is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. The financial aid administrator may certify a loan application (but is not required to do so) before receipt of any or all of a student's FATs but must not deliver loan proceeds to the student until the school receives an FAT from each of the student's previous eligible schools. In the case of a PLUS Loan, the financial aid administrator must not certify the application until the school receives an FAT from each of the benefitting student's previous eligible schools.

Getting previous financial aid information

A financial aid administrator may refuse to certify an otherwise eligible FFEL borrower's loan application if the reason for the refusal is documented and provided in writing to the student. Similarly, the financial aid administrator may certify a loan for an amount less than that for which the student would otherwise be eligible if reasons for doing so are documented and explained to the student in writing.

School refusal to certify

Before certifying a Stafford Loan, the financial aid administrator must

- ◊ certify that the loan disbursement schedule provided with the application meets the disbursement requirements for Stafford Loans (see Section 9 for more information) and

- ◊ prorate Stafford Loans for programs of study that are shorter than an academic year and for programs in which the remaining period of study is less than an academic year in length.

A school may not certify a Stafford Loan or PLUS Loan application until the following requirements are also met:

- ◊ The school has determined the student's dependency status, enrollment status, and satisfactory academic progress.

- ◊ A student (or both the student and parent in the case of a PLUS Loan) certifies that he or she is not in default on any SFA loan and does not owe a refund on any SFA grant or scholarship.

- ◊ The school determines the student's Pell Grant eligibility (for Stafford Loan applicants), and if eligible, the student has applied for the grant.

- ◊ The school reviews its academic and financial aid records, verifies the information that the borrower (and the student, in the case of a PLUS Loan) certified concerning previous loans or grants, and determines that the total loan or loans certified for the period of enrollment will not cause the borrower to exceed annual or aggregate loan limits. The school must also ensure that

  - for subsidized Stafford Loans, the loan amount or amounts will not exceed the student's financial need as determined by an approved need analysis system and

  - for unsubsidized Stafford Loans or PLUS loans, the loan amount or amounts will not exceed the difference between the student's COA and his or her EFA.

A financial aid administrator should be aware of the responsibility incurred in certifying a loan application. If the financial aid administrator certifies a loan for an ineligible student, the school will be responsible for purchasing the loan and for reimbursing the Department for all interest and special allowance paid on behalf of the borrower.

A school may not certify a loan for more than the least of the following amounts:

- ◊ the amount the borrower requests
- ◊ the student's unmet financial need (in the case of a subsidized loan)
- ◊ the student's COA
- ◊ the borrower's maximum borrowing limit (explained later in this section)

If the financial aid administrator certifies that a student is eligible for a loan larger than that to which he or she is entitled, the school must reimburse the lender for the difference between the loan amount certified and the loan amount to which the student is entitled. The school must also reimburse the Department for the excess interest and special allowance payments made on the incorrect loan amount.

Common certification errors

Some of the most common errors schools make are

- ◊ certifying a loan for more than the amount allowed;
- ◊ certifying a loan to a student not making satisfactory academic progress (see Chapter 2);
- ◊ certifying a loan to a student in an ineligible program or attending an ineligible branch campus;
- ◊ certifying a loan to an ineligible student, such as a foreign student on a student visa (see Chapter 2); and
- ◊ certifying more than one application for the same student for the same loan period (resulting in a loan exceeding the student's need and annual loan limit).

If a subsidized Stafford Loan applicant has been selected for verification, a school may refuse to certify the Stafford Loan application until verification has been completed, or the school may certify the application, if there is no information which conflicts with that provided by the applicant. A school that chooses to certify the application may not deliver the loan proceeds to the borrower until verification has been completed.

After completing the school's portion of an application, a financial aid administrator must certify that the information he or she provided is correct and that the information the student and/or parent provided is

accurate to the best of the financial aid administrator's knowledge. The school must keep one copy of the application on file. The student (or the school on behalf of the student) sends the other copies of the application to the lender or guaranty agency along with the promissory note, if included. The date of loan certification is the date the school official signs the loan application and submits it to the lender or agency—unless the school uses another means of documenting the date it submits the application.

Preventing Overawards When Aid Will Exceed Need

An overaward is an award in excess of need that occurs when the financial aid administrator learns of additional financial assistance (such as a grant or scholarship) available to the student for the same period of enrollment **after** a school determines EFA and receives Stafford Loan funds. See page 10-37 for more information on handling potential Stafford Loan overawards that are identified after FFEL funds are received.

If, after the loan has been certified but before the school receives the loan proceeds, the school becomes aware of additional financial assistance that could result in the student's aid package exceeding his or her need, the school must eliminate the overaward. The school must do this by requesting that the lender cancel or reduce the Stafford Loan or by canceling or reducing aid over which it has control, such as institutional or campus-based aid, instead of (or in addition to) canceling or reducing the Stafford Loan amount. A $300 overaward tolerance is permitted if the student's financial aid package includes a Stafford Loan plus Federal Work-Study (FWS). If there is no FWS in the student's financial aid package, no tolerance is allowed under FFEL. See Chapter 7, Section 2 for more information on this tolerance.

ANNUAL LOAN LIMITS

An undergraduate student who has not yet completed the first year of an undergraduate program may borrow

- ◊ up to $2,625 per academic year of study for a program that is at least an academic year in length;
- ◊ up to $1,750 per academic year of study for a program that is at least two-thirds of an academic year but less than a full year;
- ◊ up to $875 per academic year of study for a program that is at least one-third but less than two-thirds of an academic year.

A student may not receive a Stafford Loan for a program that is less than one-third of an academic year in length.

A student who has completed the first year of study but has not completed the remainder of the program may borrow up to $3,500 per academic year of study for a program that is at least an academic year in length.

A student who has completed the first and second years of study but has not completed the remainder of the program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

An undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

A loan for a borrower at any level of study must be prorated, as discussed on page 10-23, when

- a program is less than an academic year in length or
- a program is more than an academic year and the remaining portion of the program is less than an academic year in length.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study. A dependent undergraduate student who takes out both subsidized and unsubsidized Stafford Loans must not exceed the annual and aggregate limits allowed under the Stafford Loan Program. An unsubsidized Stafford Loan amount, subject to the loan limits described above, is the difference between the borrower's COA for the loan period and the borrower's EFA (including any subsidized Stafford Loan amount he or she will receive). This example shows how to determine the amount of an unsubsidized Stafford Loan for a dependent undergraduate student.

Gary, a first-year dependent student at Reid State U., applies for a Stafford Loan to attend a term beginning in September 1998. His COA is $8,000, and, based on his need, he qualifies for a subsidized Stafford Loan of $1,000. He may also apply for an unsubsidized Stafford Loan of $1,625, which is the difference between the maximum Stafford Loan allowed him ($2,625) and the amount of his subsidized Stafford Loan. (Gary's parents may borrow a PLUS Loan to cover the remainder of his COA.)

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Following are loan limits for unsubsidized Stafford Loans made to independent undergraduate students (or to dependent students whose parents are unable to borrow PLUS Loans due to exceptional circumstances such as adverse credit histories). **The following unsubsidized Stafford Loan limits may be added to the borrower's subsidized Stafford Loan limits.**

◊ A student who has not completed the first two years of undergraduate study may borrow

- up to $4,000 for a program of study at least an academic year in length;
- up to $2,500 for a program at least two-thirds of an academic year but less than a full year;
- up to $1,500 for a program at least one-third of an academic year but less than two-thirds of an academic year.

◊ A student who has completed the first and second years but who has not completed the remainder of the program may borrow up to $5,000 for a program of study at least an academic year in length. The loan must be prorated for programs less than an academic year in length or for programs more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length.

◊ An undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to $5,000 per academic year of study for a program that is at least an academic year in length.

Here is an example of how to determine the amount of an unsubsidized Stafford Loan for an independent undergraduate student.

> Jennifer is a first-year independent undergraduate student at Riverfront Community U. Her COA is $7,000. Jennifer qualifies for a subsidized Stafford Loan of $1,500. She may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her initial Stafford Loan limit, plus a $4,000 unsubsidized Stafford Loan). Her total loan limit for her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625.

A student's academic year level for loan limit purposes is set according to the school's standards for the time normally required to complete a given grade level. However, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish.

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $10,000 per academic year.

Teacher certification or recertification programs

Students enrolled in teacher certification or recertification programs are considered the same as fifth-year undergraduate students for the purpose of determining annual loan limits. See the chart on page 10-22 for more information on annual loan limits.

A student enrolled at least half time on a non-degree seeking basis for a single consecutive 12-month period taking coursework that the school has determined to be necessary for the student to enroll in an undergraduate, graduate, or professional program may borrow

- at the first-year undergraduate loan level to take the necessary undergraduate program prerequisite coursework or
- at the fifth-year undergraduate loan level to take the necessary graduate or professional program prerequisite coursework.

Federal PLUS Loans

A PLUS Loan may not exceed the student's estimated COA minus other financial aid awarded during the period of enrollment. This is the only borrowing limit for PLUS Loans.

Maximum Annual Loan Amounts Federal Stafford Loan Program and Federal Direct Stafford Loan Program

Borrower's Academic Level	Dependent Student	Independent Student	
	Total Subsidized & Unsubsidized	Subsidized Limit	Unsubsidized Limit** *Less Subsidized Amounts Borrowed*
First Year Undergraduate Student			
• full academic year	$ 2,625	$ 2,625	$ 6,625
• 2/3 to less than full academic year	$ 1,750	$ 1,750	$ 4,250
• 1/3 to less than 2/3 academic year	$ 875	$ 875	$ 2,375
Second Year Undergraduate Student			
• full academic year	$ 3,500	$ 3,500	$ 7,500
• 2/3 to less than full academic year	prorated*	prorated*	$ 2,500 + prorated limit
• 1/3 to less than 2/3 academic year	prorated*	prorated*	$ 1,500 + prorated limit
Third Year and Beyond Undergraduate Student			
• one academic year	$ 5,500	$ 5,500	$10,500
• less than a full year	prorated*	prorated*	prorated*
Graduate/ Professional Student	N/A	$ 8,500	$18,500

Note that when determining the unsubsidized loan amount that a student may borrow, any subsidized loan amount the student is borrowing must be subtracted from the unsubsidized maximum. e.g., if a first-year independent student borrows a $2,000 subsidized loan, he or she is eligible to borrow an additional $4,625 unsubsidized loan. Subsidized and unsubsidized loans are available under the Federal Stafford and Direct Loan programs.

*Whenever the chart indicates that the amount is prorated, the amount that a student can borrow is determined by the length of the student's program in proportion to the school's definition of an academic year. Thus, the amount that a student can borrow when he or she is enrolled for less than a full academic year is prorated according to the portion of an academic year for which the loan is sought as expressed in the number of semester, trimester, quarter, or clock hours. See Chapter 10, Section 2.

**Dependent undergraduates can also receive these additional amounts if the financial aid administrator determines that the student's parents will not be able to borrow a Federal PLUS Loan or Federal Direct PLUS Loan on the student's behalf. The financial aid administrator makes this decision after reviewing the information received by the parent from a lender after the parent attempted to obtain a PLUS Loan. The aid administrator must document in the student's file the exceptional circumstances that would prevent the parents from borrowing a PLUS Loan. For example, if the parents receive only public assistance, the administrator could assume that they will not be able to repay a PLUS Loan. A parent's refusal to borrow a PLUS Loan is not considered to be an exceptional circumstance.

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PRORATED ANNUAL LOAN LIMITS—SUBSIDIZED AND UNSUBSIDIZED STAFFORD LOANS

Proration applies only to undergraduates

Generally, a dependent or independent undergraduate may borrow up to the annual limit applicable to the student's year in school. However, the maximum amount an undergraduate student may borrow must be reduced, or **prorated**, in certain situations. **Note that PLUS Loans and loans for graduate or professional students are not subject to proration.**

Loans must be prorated when a student is enrolled

- ◊ in a program containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year; or
- ◊ in a program that is longer than an academic year, but the final period of study is shorter than an academic year.[1]

There are two types of proration—**fixed** and **proportional**:

- ◊ **Fixed** prorated loan limits are set dollar amounts based on the length of a student's program (or final period of study) in relation to a full academic year.
- ◊ **Proportional** prorated loan limits are calculated amounts based on the ratio of the credit or clock hours in a final period of study to the credit or clock hours in the school's academic year.

Program less than AY—fixed proration

Schools use fixed proration when students are enrolled in programs containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year. Chapter 3 contains extensive information about academic year requirements. Briefly, an academic year must contain **at least** 30 weeks of instructional time[2] **and** 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. To determine the length of a student's program in relation to a full academic year, schools must compare two fractions: the number of clock or credit hours in the program divided by the number of hours in the academic year, and the number of weeks of instructional time in the program divided by the number of weeks in the academic year. The lesser of these fractions determines the relation of program length to academic year length and is used to calculate the prorated loan amount.

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[1]Proration must also be done in certain cases where a program is exactly one academic year long: For example, a student withdraws from a one-year program and later, in a new academic year, completes the program (either re-enrolling at the original school or enrolling at another school). In this case, the student is enrolled in a final period of study that is shorter than an academic year.

[2]The Department may waive this requirement for some programs fewer than 30 weeks.

Fixed proration example

Hector, an independent student, has enrolled in a 650-clock hour, 28-week program. The school defines the academic year for the program as 900 clock hours and 30 weeks of instructional time. Because Hector's program is shorter than an academic year, his Stafford Loans must be prorated. The school compares the two fractions:

$$\frac{\text{650 clock hours in program}}{\text{900 clock hours in academic year}} \qquad \frac{\text{28 weeks instructional time in program}}{\text{30 weeks instructional time in academic year}}$$

650/900=.72 28/30=.93

Of the two fractions, the smaller is 650/900 (.72); the school uses .72 as the length of Hector's program when determining the prorated loan amount. The program is less than a full year but greater than 2/3 (.66) of an academic year. Therefore, Hector may borrow up to $1,750 in combined subsidized and unsubsidized Stafford Loans (see the loan limits chart on page 10-22). Because he is an independent student, he may be eligible for an additional prorated unsubsidized Stafford Loan of up to $2,500.

Final period of study less than AY

Schools must prorate a student's loan if the final period of study is shorter than an academic year. A final period of study is one at the end of which a student will complete a program. At a **term-based credit hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year. At a **term-based clock hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirements for a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

Rousimoff College has an academic year that consists of three quarters: fall, winter, and spring. Laurel will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter. Because the fall quarter is in the same academic year as Laurel's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which Laurel will not enroll. Because the fall quarter is part of the final period of study, the loan Laurel receives in the fall must be prorated, just as her spring loan must be prorated.

At a **nonterm** school (where programs are measured only in clock or credit hours), a final period of study is considered less than an academic year if the final period consists of fewer clock or credit hours or weeks of institutional time than the minimum statutory requirements for a full academic year.

To prorate the loan for a program that exceeds an academic year but has a final period of study less than a full academic year in length, schools must calculate what proportion of a full academic year the final period of study represents. The loan amount is then prorated on that basis.

Final period example

José is an independent third-year student at Van Dam College. Van Dam has 36 quarter hours and three quarters. José needs to complete only 24 quarter hours to finish his program and enrolls in the fall and winter quarters. Because his final period of study (2 quarters) is less than an academic year (3 quarters), his Stafford Loans must be prorated. The school determines the proportion of the academic year the final period of study represents by dividing the credit hours in this period by the number in a full academic year:

$$\frac{\text{24 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all third-year students ($5,500) by 24/36 to determine the maximum subsidized Stafford Loan José can receive:

24/36 X $5,500 = $3,667

José can receive up to $3,667 in combined subsidized and unsubsidized Stafford Loans. Because José is an independent student, he may be eligible for an additional unsubsidized Stafford Loan. To determine the amount, Van Dam multiplies the unsubsidized limit for independent students ($5,000) by 24/36:

24/36 X $5,000 = $3,333

José may be eligible for an additional prorated unsubsidized Stafford Loan of up to $3,333.

In some cases, the school will use both fixed and proportional proration to determine the loan amount for a final period of study. See the example on the next page.

Enrollment status changes

If a student drops or adds a course after the school has originated a prorated loan, the school **may** readjust the loan amount but is not required to do so. Of course, a student who drops courses must still be enrolled at least half time to be eligible for any loan amount.

Mixed proration example

Laurel is an independent second-year student at Rousimoff College. She has 16 quarter hours to complete in her program and will enroll in the fall and spring quarters. Each quarter at Rousimoff consists of 10 weeks of instructional time. Laurel will graduate at the end of the spring quarter. Because this final period of study is shorter than an academic year, Laurel's Stafford Loans must be prorated. Rousimoff determines the length of the final period by dividing the number of quarter hours in the period by the number of hours in the academic year:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all second-year students ($3,500) by 16/36 to determine the maximum amount Laurel can receive in combined subsidized and unsubsidized Stafford Loans:

16/36 X $3,500 = $1,556

Because Laurel is an independent student, she may be eligible for an additional unsubsidized Stafford Loan. The school compares the two fractions required for fixed proration:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}} \qquad \frac{\text{20 weeks instructional time in final period}}{\text{30 weeks instructional time in academic year}}$$

16/36 = .44 20/30 =.67

Of the two fractions, the smaller is .44; the school uses .44 as the length of Laurel's final period of study when determining the prorated loan amount. The period is less than 2/3 of an academic year (.66) but greater than 1/3 (.33). Therefore, Laurel may be eligible for an additional prorated unsubsidized Stafford Loan of up to $1,500.

TYPE OF ACADEMIC YEAR AND FREQUENCY OF ANNUAL LOAN LIMITS

The annual limit for Stafford Loans limits how much a student can borrow in a single academic year. Once the student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins another academic year. There are two types of academic years a school can use in determining when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Only term-based credit-hour programs can use SAYs. Clock-hour and nonterm credit-hour programs must use BBAYs. If a program at a term-based credit-hour school contains fewer than 30 weeks of instructional time in a year (unless the Department grants a waiver for an academic year of less than 30 weeks), the school must use only SAYs for borrowers in that program.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in Chapter 3.

Summer terms

For a program that uses SAYs, a summer term may be part of the academic year that preceded that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "leader"). The school can

- ◊ use a strict policy that summer terms are always trailers or leaders,
- ◊ determine whether a summer term is a trailer or leader on a program-by-program basis, or
- ◊ determine whether a summer term is a trailer or leader on a case-by-case basis.

Summer mini-sessions can be grouped together as a single trailer or leader, or they can be treated separately and assigned to different SAYs. If the summer mini-sessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a mini-session for which the student was not enrolled.

Borrower-based Academic Year

A BBAY is not a set period like an SAY; instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a school that has new students beginning enrollment every month might use a BBAY for each student that begins in the month the student enrolls, rather than using an SAY that begins in the fall regardless of when the student actually begins classes. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (see the next page for one exception to this requirement for term-based credit-hour programs.)

As noted previously, a school must use BBAYs for clock-hour and nonterm credit-hour programs. A school may choose to use a BBAY instead of an SAY for a term-based credit-hour program unless the program contains fewer than 30 weeks of instructional time in a year; in this case, as mentioned earlier, the school must use an SAY for the program.

Term-based credit-hour programs

For a term-based credit-hour program, the school can use BBAYs for all its students or just for students enrolled in certain programs, or it may use BBAYs on a student-by-student basis. The school can also alternate BBAYs with SAYs for a student, but the academic years must not overlap. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

The BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer trailer or leader). The BBAY may include terms and/or mini-sessions the student does not attend if the student could have enrolled at least half time in those terms or mini-sessions; however, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term. If the BBAY includes a summer term, the BBAY need not meet the 30-week minimum requirement for an academic year.

Clock-hour programs, nonterm programs

For a clock-hour or nonterm program, the BBAY begins when the student enrolls. Because the BBAY must meet the minimum statutory requirements for an academic year, the BBAY must contain at least 30 weeks of instructional time and the appropriate number of credit or clock hours (24 semester or trimester hours, 36 quarter hours, or 900 clock hours). The BBAY does not end until the student has completed the number of weeks **and** the number of hours in the academic year. A student who is attending less-than-full-time will take longer to complete the academic year than a full-time student.

Eligibility for Further Loans

In general, once a student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins a new academic year. A student who has already received one Stafford Loan within an academic year may receive another loan if he or she has not yet reached the annual limit. In addition, a student who has already borrowed up to the annual limit within an academic year can receive another loan if his or her annual limit is increased, either because he or she progresses to a grade level with a higher limit or because his or her dependency status changes to independent. In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's loan limit.

Note that for a nonterm program, the student will never progress to a higher grade level within an academic year and, thus, will only have a change in the loan limit if his or her dependency status changes. The student moves to a higher grade level only when he or she completes the BBAY.

AGGREGATE LOAN LIMITS

The maximum outstanding **total subsidized and unsubsidized** Stafford Loan debt allowed is

- ◊ $23,000 for a dependent undergraduate student,
- ◊ $46,000 for an independent undergraduate student, and
- ◊ $138,000 for a graduate or professional student (including loans for undergraduate study).

Note that these maximums include any amounts borrowed under the William D. Ford Federal Direct Loan Program (Direct Loans) and that any outstanding Federal Supplemental Loans for Students (SLS) that a borrower has count as unsubsidized loans against the borrower's aggregate loan limit.

The aggregate limit (or sum total) for both undergraduate and graduate/professional students must include the amounts a student has outstanding in subsidized and unsubsidized loans **under both the Direct Loan and FFEL programs**, even if the student has consolidated any of these loans under either program. A student should contact his or her consolidation loan holder to determine the makeup of the loan—that is, the amount and information on Federal Consolidation Loans. See Chapter 11 for more information on Direct Consolidation Loans.

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid in full or in part, the borrower may apply for additional Stafford Loans.

Total Cumulative Loan Limits for FFELs and Direct Loans

Dependent Undergraduate	PLUS Loans	Independent Undergraduate	Graduate
$23,000 (subsidized and unsubsidized)	No limit	$46,000 (subsidized and unsubsidized with subsidized limited to $23,000)	$138,500 (subsidized and unsubsidized, with subsidized limited to $65,500; includes any loans outstanding from undergraduate study)

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INCREASED LOAN LIMITS FOR HEALTH EDUCATION ASSISTANCE LOAN (HEAL) STUDENTS

An increase in **annual** unsubsidized Stafford Loan limits is permitted for students who could have borrowed under the Health Education Assistance Loan (HEAL) Program but who are no longer eligible because they did not borrow under that program before October 1, 1995. Students in this category who are enrolled **full time** in schools that participate in the HEAL Program are eligible for the higher unsubsidized Stafford Loan amounts. Obversely, students who remain eligible to borrow under HEAL (students who **did** receive HEALs before October 1, 1995) may **not** receive the increased Stafford Loan amounts.

A school that participates in HEAL is one that made HEAL disbursements during Fiscal Year 1995 (October 1, 1994 through September 30, 1995). Schools that have withdrawn from the HEAL Program—or have simply stopped making HEALs—after FY 95 may certify unsubsidized Stafford Loans at the increased limits for any loan period that begins before July 1, 1998.

When determining additional unsubsidized Stafford Loan limits, participating HEAL schools must use the current HEAL Program and Discipline loan limits, described in the Department of Health and Human Services Student Financial Aid Guidelines Notebook in Section 104.3.2. Note that, unlike in HEAL, no need analysis is required for the extra unsubsidized Stafford Loan amounts.

The **aggregate** unsubsidized Stafford Loan limit for these health profession students is $189,125 less the aggregate amount of the subsidized loans made to students.

Section 3 Payment to the Borrower

The lender disburses loan proceeds to the school for delivery to the student or parent borrower. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods.

DEFINITIONS OF DELIVERY AND DISBURSEMENT

A delivery of funds to the student occurs on the date the student's school account is credited by that school or on the date the borrower (student or parent) directly receives the Federal Family Education Loan (FFEL) funds from the school. If a school combines these methods of payment, delivery occurs on the earlier of the two dates. For a school that uses its own institutional funds to credit the student's school account or to pay the student before the FFEL funds are received from the lender, delivery occurs on the date that those institutional funds are credited to the student's account or paid directly to the borrower. Again, if a school combines these methods of payment, delivery occurs on the earlier of the two dates.

If a school credits a student's account with institutional funds more than 10 days before the first day of classes, the delivery is considered to have occurred on the 10th day before the first day of classes. Similarly, if a school credits the account of a first-time, first-year, undergraduate borrower with institutional funds sooner than 30 days after classes start, the delivery is considered to have occurred on the 30th day after classes start. Disbursement of FFEL funds is made by a lender; delivery of those funds is made by a school. However, for the purposes of the cash management rules, disbursement is used to mean delivery. See Chapter 3 for more information on cash management.

Separate offices for authorizing and delivering

Because the functions of authorizing payment and delivering loan proceeds must be separate, no single office at the school is permitted to carry out both functions.

FINANCIAL AID HISTORY AND NSLDS

As stated in Section 2, during the loan application process, a financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. It is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. (Procedures for obtaining FATs are described in Chapter 3.) Until a school receives an FAT from each of a student's previously attended schools, the school may not deliver Federal Stafford Loan proceeds to a student. In the case of a Federal PLUS Loan, the financial aid administrator must not even certify the application until the school receives an FAT from each of the benefitting student's previous eligible schools.

A school may **not** release funds to the student if information a previous school provided indicates that the student is in default on an Student Financial Assistance (SFA) loan or if that the student owes a repayment on an SFA grant. See Chapter 2 for information on these eligibility issues.

METHODS OF DISBURSING AND DELIVERING LOAN FUNDS

Disbursement to School

Because authorization for a lender's disbursement by electronic funds transfer (EFT) or master check is collected on the common Stafford Loan and PLUS Loan applications, a school is not required to obtain a separate written authorization for the lender's disbursement in most cases. If a lender disburses Stafford Loan or PLUS Loan proceeds by EFT or master check and the borrower did not provide authorization on the application, the school must obtain the borrower's written authorization for the lender's disbursement of the initial and any subsequent disbursement. The school must collect this authorization not more than 30 days before the first day of classes of the enrollment period.

With the first disbursement of loan proceeds, the lender must provide the borrower with a copy of the completed promissory note and repayment information. A school is also required to provide certain notifications to borrowers before delivering loan funds to them.

See Chapter 3 of this handbook for more information on required authorizations and notifications. Chapter 3 also provides information on a borrower's right to cancel a loan or a portion of a loan before or soon after the time of disbursement.

Delivery to Borrower

A school may deliver FFEL funds directly by releasing the lender's check to the borrower (student or parent), by crediting the borrower's bank account via EFT, by issuing a check, or by paying the borrower in cash. Before delivering funds, a school must obtain the borrower's authorization to do so. The school must keep the authorization in the student's file.

A check a school issues to a borrower must be made payable to the borrower and must be endorsed or certified by that borrower. (The school issues the check by releasing or mailing it to the borrower or by notifying the borrower that the check is available for immediate pickup.) A borrower receiving cash from a school must provide the school with a signed receipt when receiving the funds.

DISBURSEMENT AND DELIVERY REQUIREMENTS

The School's Role

A school may not deliver the first FFEL installment to a first-time, first-year undergraduate until 30 days after the first day of the student's program of study.

Check requiring borrower endorsement

In the case of a lender that disburses FFEL funds to a school by check requiring the endorsement of the borrower

- ◊ a school may not request lender disbursement of the borrower's loan proceeds until the 30th day before the first day of classes for a payment period.

First-year, first-time borrowers

- ◊ for first-year, first-time borrowers, a school may not request the first disbursement of a Stafford Loan until the first day of classes of the first payment period. For any subsequent payment period, a school may not request a disbursement earlier than 30 days before the first day of classes.

EFT or master check

In the case of a lender that disburses FFEL funds to a school by EFT or master check

- ◊ a school may not request lender disbursement of the borrower's loan proceeds until the 13th day before the first day of classes of payment period. (This time frame applies to PLUS Loans as well.)

First-year, first-time borrowers

- ◊ for first-year, first-time borrowers, a school may not request the first disbursement of a Stafford Loan until the 27th day after the

first day of classes of the first payment period. For any subsequent payment period, a school may not request a disbursement earlier than 13 days before the first day of classes. (This time frame does not apply to PLUS loans)

Before each disbursement is made, a school must review the student's eligibility to ensure that he or she remains eligible for the disbursement. If a student temporarily ceases to be enrolled at least half time before any FFEL funds are disbursed, the lender may still make a first disbursement (and subsequent disbursement) if the student resumes enrollment at least half time. The school must review the student's cost of attendance (COA) and revise it as necessary to ensure the student continues to qualify for the entire amount of the loan, even though the COA may be lower. The school must document this review in the student's file. Reaffirmation of loan eligibility requires the school to verify Pell Grant eligibility (if applicable), to establish that the student has maintained satisfactory academic progress standards, and to verify enrollment status. When the school reports the student's change in enrollment status but expects the student to resume enrollment within a time period that is less than a payment period in length, it must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement.

Resuming enrollment—34CFR 682.604(b)(2)(iv)

If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

The Lender's Role

A lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. This statement must indicate:

- ◊ in bold print that this is a loan that must be repaid;
- ◊ the principal amount of the loan;
- ◊ the actual interest rate;
- ◊ the amount of any charges, including the origination fee if applicable, and the insurance premium, to be collected by the lender before or at the time of each disbursement on the loan;
- ◊ when repayment is required and when the borrower is required to pay the interest that accrues on the loan;

- ◊ the name and address of the lender and the address to which communications and payments should be sent;
- ◊ that the lender may sell or transfer the loan to another party and that the address and identity of the party to which correspondence and payments should be sent may change;
- ◊ the yearly and cumulative maximum amounts that may be borrowed;
- ◊ that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a national credit bureau;
- ◊ the minimum annual payment required, and minimum and maximum repayment periods;
- ◊ an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for);
- ◊ refinancing and consolidation options;
- ◊ that the borrower has the right to make prepayments;
- ◊ circumstances under which repayment of principal or interest on the loan may be deferred and an explanation of forbearance;
- ◊ that the U.S. Department of Defense offers a repayment option (as an enlistment incentive);
- ◊ the definition of default (and the consequences of default);
- ◊ the effect of the loan on eligibility for other student assistance; and
- ◊ an explanation of borrower costs incurred in collection of the loan.

The information on the disclosure statement must be the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement, he or she should contact the lender immediately. If the student wishes to cancel the loan, he or she should contact the school immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.

Multiple disbursement requirements

A lender must disburse loan proceeds in at least two installments. No installment may exceed one-half the loan amount. There are two exceptions to this multiple disbursement requirement:

- ◊ A lender is not required to disburse a Federal Consolidation Loan in more than one payment.
- ◊ A lender is not required to make more than one disbursement of any FFEL if the student is attending an eligible foreign institution.

Chapter 3 discusses in detail the requirements of the cash management regulations published on November 29, 1996. The discussion here will focus on how those regulations affect FFEL disbursement and delivery procedures.

Disbursement schedule requirements

If a school's program uses standard academic terms (for example, semester, trimester, or quarter) and measures progress in credit hours, disbursements are made as follows:

- ◊ If there is only one term, a lender disburses a FFEL in equal amounts at the beginning of the term and at the term's calendar midpoint. However, if any payment period has elapsed before a lender makes a disbursement, the lender may include in the disbursement the proceeds for all completed payment periods. Similarly, if a loan period equals one payment period and more than half of it has elapsed, a lender may include in a disbursement the proceeds for the entire payment period.
- ◊ If there is more than one term, funds must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three basically equal payments. Previously, quarter-based schools could have disbursed loan funds for all three quarters in two disbursements.

If a school's program measures progress in clock hours or in credit hours without using standard terms, disbursements are made as follows:

- ◊ If the program is one academic year or shorter, a lender disburses a FFEL in equal amounts at the beginning of the term and at the term's calendar midpoint. The second disbursement may not be made, however, until the later of
  - the calendar midpoint between the first and last scheduled days of class of the loan period, or

- the date (determined by the school) that the student has **successfully** completed half of the academic coursework (for credit hour schools) or half the clock hours (for clock hour schools) in the loan period.

◊ If the program is longer than an academic year, the lender makes disbursements as described above for the first and any subsequent full academic year. If the remaining portion of the program is less than a full academic year, the lender disburses a FFEL in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint. Again, the second disbursement may not be made until the later of the two dates described above.

OVERAWARDS

If a school becomes aware, before FFEL funds are disbursed, that a student has obtained additional financial assistance resulting in an overaward (that is, an award in excess of the amount for which the student is eligible), the school must take steps to reduce the overaward. For example, the school may reduce the second or subsequent disbursement of the loan or return excess loan proceeds to the Department. See Chapter 2 for a detailed discussion of overawards and a school's options.

CREDIT BALANCES

A school must pay a credit balance directly to a student or parent

◊ no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period or

◊ no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.

Note that this 14-day requirement is now a standard for all SFA programs.

A school may hold any additional loan proceeds in excess of those necessary to cover allowable school charges the student owes (for use during the remainder of the academic year) **only** with the student's written authorization. A school may not require or coerce a student to provide authorization, and a school must allow for cancellation or modification of the authorization at any time.

Deposit of credit balances—34CFR 668.165(b)

The credit balance must be deposited in a subsidiary ledger account; also, the school must maintain cash in its bank account for an amount equal to the amount of the funds the school holds for the student.

A school must pay any remaining balance on loan funds by the end of the loan period in the award year for which the funds were awarded.

In the case of a PLUS Loan, a school must obtain the parent borrower's written authorization to deliver a credit balance of PLUS funds directly to the student. Otherwise, the school must deliver these funds to the parent.

LATE DISBURSEMENT

If the lender disburses the Stafford Loan or PLUS Loan proceeds after the end of the period of enrollment for which the loan was made, the proceeds must be returned to the lender within 30 days, **unless the proceeds are the first disbursement of the loan and come with a notice from the lender stating that this represents a late first disbursement**. Similarly, if the lender disburses the loan proceeds before the end of the enrollment period but after the student has left school or dropped below half-time status, the school must return the loan proceeds to the lender within 30 days unless this disbursement is a late disbursement.

Under FFEL Program regulations, a lender may make a late disbursement (that is, disburse loan proceeds after the student is no longer enrolled on at least a half-time basis) of a Stafford Loan or PLUS Loan only if the student became ineligible solely due to his or her change in enrollment status.

A school may disburse late funds (Stafford or PLUS) only if the school certified the loan application before the student dropped below half-time enrollment **and** the loan funds will be used to pay educational costs that the school determines the student incurred for the period in which he or she was enrolled and eligible. In addition, before the date the student became ineligible, the school must have received a *Student Aid Report* (SAR) from the student or an *Institutional Student Information Record* (ISIR) from the Department. The SAR or ISIR must have an official Expected Family Contribution (EFC) which is calculated by the Department. If the student is a first-year, first-time borrower, he or she must also have completed the first 30 days of his or her program of study to receive a late disbursement of a Stafford Loan or to benefit from the late disbursement of a PLUS Loan.

A school may make a late disbursement of a Stafford Loan or PLUS Loan no later than 90 days after the date that the borrower became ineligible for the loan.

A school may not make a late second or subsequent disbursement of a Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

BORROWER INELIGIBILITY AND RETURN OF FUNDS TO LENDER

10-Day Periods

The regulations provide for three discrete 10-day periods for disbursing and returning FFEL Program funds.

For purposes of the cash management regulations and this discussion, returning funds "promptly" means that a school may not delay initiating and completing its normal process for returning FFEL Program funds to lenders.

Also for these purposes, the requirement that a school "return funds no later than 10 business days" means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Initial Period

For FFEL Program funds a school receives from a lender via EFT or master check, a school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 10 business days after the school receives the funds.

For FFEL Program funds that a school receives from a lender via a check requiring the endorsement of the student (or parent), the school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 30 calendar days after the school receives the funds.

Conditional Period

A school has 10 business days after the last day of the initial period to disburse FFEL Program funds only if

- the student did not satisfy a programmatic requirement necessary to receive the funds during the initial period **and**
- the school expects the student to satisfy that requirement during the conditional period.

Return Period

For FFEL Program funds that a school does not disburse by the end of the initial or conditional period, as applicable, the school must return those funds to the lender promptly but no later than 10 business days from the last day of that initial or conditional period. However, if a student becomes eligible to receive FFEL program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

Student's Failure to Register, Begin Delayed Attendance, or Complete Verification

If a school discovers that a student did not register for the period of enrollment covered by the loan or did not begin delayed attendance within the first 30 days of enrollment, the school must return the loan proceeds to the lender within 30 days of this determination. If a student registers and receives the loan proceeds but attends less than half time or is otherwise found to be ineligible for all or part of the loan, the student has failed to qualify for the loan, and the lender must immediately demand full loan repayment. It is the borrower's responsibility to notify the lender if he or she fails to enroll at least half time after receiving the loan. (The school must also notify the lender of the borrower's loan ineligibility.) It is also the borrower's responsibility to repay the amount due if he or she fails to qualify for it. **If the borrower fails to repay the loan, the lender, after following due diligence requirements (which include demanding payment in full), may file a default claim for the full loan amount**.

A school must return Stafford Loan proceeds to the lender if a student selected for verification does not complete the verification process within 45 days of the school's receipt of the proceeds. See *The Verification Guide, 1997-98* for more information on verification.

Effect of Returned Funds on Loan Fees

If a school returns a disbursement or any portion of a disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned. If a student returns a disbursement or any portion of a disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned **only if the lender receives the returned amount within 120 days after disbursement**.

REIMBURSEMENT PAYMENT METHOD

A school placed under the reimbursement payment method (for the Federal Pell Grant Program, Direct Loan Program, or campus-based programs) may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to make a disbursement for that borrower. If prohibited by the Department, a school may not certify a borrower's loan application until the Department approves a request from the school to make the certification for the borrower. For the Department to approve a school's disbursement or certification request, the school must submit documentation verifying each borrower's eligibility for disbursement or certification. (A school participating only in the FFEL Program may also be subject to this requirement if the Department deems the requirement necessary.)

section 4 Repayment

GRACE PERIODS

A "grace period" is the period of time before the borrower must begin or resume repaying a loan. An "initial grace period" is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

For borrowers who have been attending at least half time, initial grace periods are six consecutive months after the borrower drops below half-time study at an eligible institution or at a comparable school outside the United States. The exception to this rule is a borrower with a Stafford Loan at the 7% interest rate. This borrower has a 9- to 12-month grace period, which is set by the lender or the guaranty agency and is shown on the promissory note the borrower signs.

It is important to note that grace periods are always day-specific; that is, an initial grace period begins on the day immediately following the day the borrower ceases attending school at least half time and ends on the day before the repayment period begins. A borrower has ceased attending at least half time for the following reasons: because the student has completed the course of study, because the student has dropped out of school or has dropped below half-time status, or because the student transfers to a school that is not considered an eligible school for in-school deferment purposes (see Section 5 for more information). The borrower may request a shorter grace period.

Correspondence courses and grace periods

For correspondence students, the grace period begins on the earliest of the following three dates:

- ◊ the date the borrower completes the program
- ◊ the date that is 60 days after the school's deadline for completing the program
- ◊ the date on which the borrower falls 60 days behind the due date for submitting a scheduled assignment.

For information on eligible correspondence programs, see Chapter 3.

For a student attending at least half time, the initial grace period does not end until he or she ceases to be enrolled at least half time for a **continuous** period of six months. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period, calculated as six consecutive months, from the date that he or she drops below half-time enrollment again. Suppose, for example, that a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full initial grace period once he or she again leaves school or drops below half-time status.

Borrower with SLS loan

If a borrower has a Federal Supplemental Loans for Students (SLS) loan that has not yet entered repayment and a Federal Stafford Loan that has not yet entered repayment, the borrower may request that he or she be allowed to delay repayment on the SLS loan for the period equivalent to the Stafford Loan grace period so that repayment on both loans can begin at the same time. (Note that no new SLS loans are being made; the SLS Program was repealed beginning with the 1993-94 award year.)

Post-deferment grace periods

A borrower with Stafford Loans made prior to October 1, 1981 is entitled to a six-month **post-deferment** grace period following any deferment. The one exception is the unemployment deferment. Although a borrower may have several periods of unemployment deferred, he or she may receive a post-deferment grace period **only** following the first unemployment deferment.

INTEREST RATES

Federal Stafford Loans

In the past, the interest rate on a borrower's first Stafford Loan applied to all subsequent Stafford Loans, as long as he or she had an outstanding balance on a loan at that interest rate when subsequent loans were obtained. However, the Technical Amendments of 1993 changed the law to enable borrowers with fixed interest rates on earlier Stafford Loans to obtain the variable interest rate previously available only to new borrowers.

Interest rates for Stafford Loans (subsidized and unsubsidized) follow:

- ◊ For a loan disbursed on or after October 1, 1992 and before July 1, 1994 to a borrower with no FFELs (either subsidized or unsubsidized) outstanding, the interest rate is variable and is determined on June 1 of each year.

- The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1%.

- The interest rate for these loans may not exceed 9%.

◊ For loans first disbursed on or after July 1, 1994, the interest rate is variable and is determined on June 1 of each year, regardless of whether that borrower has FFELs outstanding.

- The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1% (except during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998).

- The interest rate for these loans may not exceed 8.25%.

For example, a borrower who has outstanding Stafford Loans with interest rates of 9% or 7% and whose newest Stafford Loan is disbursed on September 1, 1998 will receive a variable interest rate on that loan. The terms and conditions (and interest rates) of the prior loans will still apply to those prior loans unless the loans are converted to a variable interest rate because they are subject to rebates of excess interest (see next page).

The variable interest rate for July 1, 1997 through June 30, 1998 for the first category of loans (loans disbursed on or after October 1, 1992 and before July 1, 1994) is 8.26%. The variable interest rate for July 1, 1997 through June 30, 1998 for the second category of loans (loans first disbursed on or after July 1, 1995 but prior to July 1, 1998) is 8.25%.

As stated, during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998, the interest rate is not the same as it is during repayment. Instead of being based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 3.1%**, the rate is based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 2.5%**. For this category of loans, the interest rate for July 1, 1997 through June 30, 1998 is 7.66%.

If an annual adjustment in a borrower's variable interest rate will prevent the loan from being repaid within the maximum allowable repayment period under the current repayment schedule, a lender must either make an adjustment in the borrower's monthly payment amount or grant a mandatory administrative forbearance as described in Section 5 of this chapter.

Conversion of Loans to a Variable Interest Rate

Certain fixed-rate loans disbursed in the past are also now subject to conversion to a variable interest rate. The Technical Amendments of 1993 required lenders to convert most loans **subject to rebate of excess interest** to variable rate loans by January 1, 1995. The variable rate depended on the type of loan converted but could not exceed the original fixed interest rate of the loan as specified in the promissory note. The loan holder was required to inform the borrower of the conversion to a variable rate at least 30 days prior to conversion.

Loans subject to a rebate of excess interest and conversion to a variable rate are

- ◊ Stafford Loans at 8% changing to 10% after four years of repayment
  - If made before July 23, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10%
  - If made to a first-time borrower on or after July 23, 1992 and before October 1, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10%
  - If made to a repeat borrower on or after July 23, 1992 and before July 1, 1994, such a loan is subject to a rebate on the date the loan is made;
- ◊ 7%, 8%, and 9% fixed-rate Stafford Loans made to repeat borrowers on or after July 23, 1992 and before July 1, 1994.

Loans subject to rebate of excess interest are explained in more detail in the November 30, 1994 FFEL Final Rule.

Federal PLUS Loans

All Federal PLUS Loans made on or after July 1, 1987 have variable interest rates, determined on June 1 of each year according to a prescribed formula and is effective for the following July 1 through June 30.

The variable interest rate for a PLUS Loan first disbursed on or after July 1, 1987 and before October 1, 1992 must not exceed 12%. The interest rate for these PLUS loans for July 1, 1997 through June 30, 1998 is 9.13%.

The variable interest rate for a PLUS Loan first disbursed on or after October 1, 1992 and before July 1, 1994 may not exceed 10%. The interest rate for these PLUS Loans for July 1, 1997 through June 30, 1998 is 8.98%.

The variable interest rate for a PLUS Loan disbursed on or after July 1, 1994 and before July 1, 1998 must not exceed 9%. The bond equivalent rate of the 52-week Treasury Bills (auctioned at the final auction held prior to June 1 each year), plus 3.1% of that amount, equals the variable interest rate. The variable interest rate for these PLUS Loans for July 1, 1997 through June 30, 1998 is 8.98%.

Annual adjustments in interest rates may alter monthly payment amounts from year to year. Or, the lender may keep the monthly payment amount the same but increase (or decrease) the number of payments required to reflect the increase (or decrease) in the annual variable interest rate.

ADDITIONAL COSTS OF BORROWING

Loan Fees

In addition to interest, FFEL borrowers also pay insurance premiums and origination fees on their loans. A lender charges each FFEL borrower an origination fee. A guaranty agency charges the lender an insurance premium on each loan it guarantees. Generally, the lender passes this cost on to the borrower.

The maximum insurance premium that a guaranty agency may charge the lender of a Stafford Loan or PLUS Loan is a one-time fee not to exceed 1% of the principal amount of the loan. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each loan disbursement.

The origination fee is 3% of the principal amount of the loan. A lender may (but is not required to) charge an origination fee on a subsidized Stafford Loan. A lender must charge an origination fee on an unsubsidized Stafford Loan or a PLUS Loan. The lender must deduct (collect) the origination fee proportionately from each disbursement, regardless of the type of loan on which it is being charged.

Proration of fees

The origination fee and insurance premium, or appropriate prorated amounts of those fees, must be refunded by application to the borrower's account if

- ◊ the school returns the loan or a portion of the loan to the lender,
- ◊ the loan check has not been negotiated within 120 days of disbursement,
- ◊ the loan is repaid in full within 120 days of disbursement, or

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- ◊ the loan proceeds were disbursed by electronic funds transfer (EFT) or by master check and the school has not released these funds from its restricted account within 120 days of disbursement.

Late Charges

If a borrower fails to pay all or a portion of a required installment within 15 days after it is due, the lender may require the borrower to pay a late charge (if authorized by the borrower's promissory note). This charge may not exceed six cents for each dollar of each late installment.

Collection Charges

If authorized by the borrower's promissory note, and notwithstanding any provisions of state law, a lender may require that a borrower or an endorser pay costs the lender or its agents incurred in collecting installments not paid when due. These charges, include but are not limited to

- ◊ attorney's fees,
- ◊ court costs, and
- ◊ telegrams.

These costs may not include routine collection costs associated with preparing letters or notices or with making personal contacts with the borrower (for example, local and long-distance telephone calls).

REPAYMENT OF FEDERAL STAFFORD LOANS

While the borrower is in school at least half time (before the expiration of his or her grace period), the federal government pays the interest on a subsidized Stafford Loan on the his or her behalf. For an unsubsidized Stafford Loan, interest accrues during this period, and the borrower is responsible for paying it. The borrower may pay the interest while he or she is in school, or the lender will capitalize it (that is, add it to the principal balance).

Maximum repayment period

The loan repayment period for a Stafford Loan (subsidized or unsubsidized) begins the day after the grace period ends and ends no later than 10 years from that date (excluding periods of deferment and forbearance). Generally, the first payment on a Stafford Loan is due no later than 45 days after the first day that repayment begins. The lender must notify the borrower of the date and amount of the first payment as part of a repayment disclosure that must be sent to the borrower no less

than 30 days before the date that the first payment is due and no more than 240 days before that date.

Determining a Student's Withdrawal Date

The student's withdrawal date is the date that the student notifies an institution of his or her withdrawal or the date of withdrawal specified by the student, whichever is later. If the student does not withdraw officially (that is, he or she drops out of school without notifying the school), the last recorded date of the student's class attendance, as documented by the school, is the student's withdrawal date. An institution must determine the withdrawal of a student who drops out in a timely manner. This date must be determined within 30 days after the expiration of the earliest of these three periods:

1) the period of enrollment for which the student has been charged;

2) the academic year in which the student withdrew

3) the educational program in which the student withdrew

In the case of a student who does not return from a summer break, the school shall determine the student's withdrawal date no later than 30 days after the first day of the next scheduled term.

Leave of absence

A student who has been granted a leave of absence is not considered to have withdrawn from school. If a student fails to return from an approved leave of absence (whether approved or unapproved), the withdrawal date is the last recorded date of class attendance. This date is used regardless of whether the student withdraws officially (by notifying the school) or unofficially (by discontinuing attendance without notifying the school).

Correspondence course/ withdrawal date

For correspondence study, the withdrawal date is the date of the last lesson the student submitted. For appeal procedures with regard to the withdrawal date for correspondence study, see 34 CFR 668.22(j)(1)(iii).

The refund policy for students who have withdrawn, who have dropped out, or who have not returned from an approved or unapproved leave of absence is explained in Section 11.

It is the student's responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time. The financial aid administrator should emphasize to students the importance of that responsibility. Upon receiving notification of this critical date, the lender will send a repayment schedule to the borrower. If a loan sale or transfer requires the borrower to send payments to a new address, the present and former holders of the loan (either jointly or

separately) must notify the borrower of the change within 45 days of the sale or transfer. This notification should spell out the borrower's obligations to the new loan holder.

Loan Repayment Schedules

Provisions of a loan repayment schedule must agree with those in the promissory note and the loan disclosure statement. Generally, a borrower has from 5 to 10 years to repay a loan in full. Any periods of authorized deferment or forbearance are not counted in the repayment period.

Prepayment

A borrower may prepay all or part of a loan at any time without penalty. A lender has the option of crediting the payments first to late charges or collection costs, then to outstanding interest, and then to unpaid principal. If the borrower submits a payment amount that exceeds the normal monthly payment amount and does not provide instructions for handling the excess payment amount and the excess amount is equal to or greater than a full monthly payment, the lender must apply the excess to future installments, advancing the next payment due date. If the excess amount is less than a full monthly payment amount, the lender must apply it as a prepayment of principal.

Minimum payment amount

In general, the minimum total scheduled payments to all holders of a borrower's FFELs must be at least $600 per year. Loan payments for Stafford Loans, however, usually exceed these minimums because of the 10-year statutory limit on repayment. Monthly payment amounts may not be set at less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of $5. The lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met. Note that the $600-per-year minimum combined annual payment for a married couple with Stafford Loans is no longer permitted.

Repayment Plans

Lenders are required to offer the option of standard, graduated, or income-sensitive repayment to new Stafford or SLS borrowers. A new borrower is defined as someone who borrows on or after July 1, 1993 and who, at the time he or she borrows, has no outstanding balance on a FFEL borrowed before that date. The Secretary encourages lenders to offer this flexible range of repayment options to all other borrowers.

A lender must provide the choice of repayment plans to a borrower not earlier than six months before the date of the first scheduled loan payment. Even if a borrower does not choose a particular plan, the lender and borrower may agree (to the extent practicable) that the borrower will repay all of his or her FFELs under one repayment schedule.

A lender may agree to a standard, graduated, or income-sensitive repayment schedule for a new Stafford or SLS borrower, as long as the minimum annual payment and maximum time period requirements are met and as long as scheduled monthly payments cover at least the monthly interest charges. A borrower must respond to a lender's offer of a choice of repayment options within 45 days after the lender makes the offer, or he or she will be required to repay under a standard repayment schedule.

Standard repayment

The standard repayment plan has a fixed monthly payment amount. This amount may vary annually if an adjustment in a borrower's variable interest rate necessitates a change in his or her repayment schedule.

Graduated repayment

The graduated plan has a varying monthly payment amount. This amount increases incrementally during the repayment period. If a graduated repayment schedule is established, however, no single payment can be scheduled to be more than three times greater than any other scheduled payment.

Income-sensitive repayment

Under an income-sensitive repayment schedule, the amount of a borrower's installment payment is adjusted annually, based on the borrower's expected total monthly gross income. In general, the lender will request from the borrower information on his or her income no earlier than 90 days before the due date of the borrower's first payment. The income information must be sufficient for the lender to make a reasonable determination of what the borrower's payment amount should be. If a lender receives late notification that a borrower has dropped below half-time enrollment status at a school, the lender may request the income information earlier.

If a borrower reports income that a lender considers to be insufficient to establish monthly payments that would repay a loan within the maximum 10-year repayment period, the lender shall require the borrower to submit evidence showing the amount of the most recent total monthly gross income he or she has received from employment and from other sources.

A lender must grant forbearance to a borrower for a period of up to five years of payments if the income-sensitive monthly payment amount would prevent the borrower from repaying the loan within the maximum repayment period.

If a borrower chooses the income-sensitive plan but then does not provide any documentation that may be required for repayment under that plan, the lender may require that borrower to repay his or her loans under the standard repayment option.

There is no interest subsidy for PLUS Loan borrowers; the borrower is responsible for all interest that accrues on the loan while the student is in school and during periods of authorized deferment and forbearance.

The repayment period for a PLUS Loan begins on the date the last disbursement is made. The repayment period for a PLUS Loan ends no later than 10 years after repayment begins, excluding periods of authorized deferment and forbearance.

A PLUS Loan borrower's first payment of principal and interest is due within 60 days after the loan is fully disbursed, unless a deferment conditions applies. See the following section on deferments for more information.

PLUS Loan minimum payment amount

As stated in the discussion of Stafford Loans, the minimum total scheduled payments to all holders of a borrower's FFELs must be at least $600 per year. This minimum also applies to PLUS Loans. A borrower must pay a total of at least $600 per year on all of his or her PLUS Loans. If the borrower also received FFELs as a student, he or she must pay a total of at least $600 per year on all of his or her PLUS Loans and student FFELs combined. Monthly payment amounts may not be set at less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of $5. The lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met.

Prepayment

There is no prepayment penalty for PLUS Loans. A lender may agree to a standard, graduated, or an income-sensitive repayment schedule for a PLUS Loan borrower, as long as minimum annual payment and maximum time periods for loan repayment are met. The Department encourages lenders to provide borrowers flexible repayment schedules as long as payments at least cover interest charges.

If, after a parent obtains a PLUS Loan, the student for whom the parent borrowed enrolls less than half time or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due to the lender. It is the parent's responsibility to notify the lender of the date on which his or her child (for whom the parent has taken out a PLUS Loan) ceases to be enrolled at a participating school at least half time. The school also must promptly inform the lender when the student for whom the parent borrowed drops below half-time status.

CAPITALIZATION OF INTEREST

Capitalization is the addition of accrued interest to a borrower's loan principal. The interest accruing during the period from the date of first disbursement of the loan to the beginning of the borrower's enrollment period, and during the period from the date the first loan payment was due until it was made may be capitalized on the date repayment is scheduled to begin. Interest may be capitalized no more frequently than quarterly and any time repayment begins or resumes. Generally interest is capitalized when a borrower elects not to pay it (or fails to pay it) during forbearance or during in-school, grace, and deferment periods on unsubsidized Stafford Loans and PLUS Loans. (On subsidized Stafford Loans, interest is paid by the federal government during the last three periods mentioned.)

If a borrower has agreed to pay interest during a deferment or forbearance period or during an in-school or grace period but fails to resolve a payment delinquency, the lender also may, after notifying the borrower, capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance. The borrower should understand that capitalization of interest increases the principal balance of the loan.

REPAYMENT DISCLOSURE STATEMENT AND BILLING

A lender must provide a Stafford Loan borrower with a repayment disclosure statement not less than 30 or more than 240 days before the borrower's first payment is due. In addition, the lender or holder of the loan must notify the borrower—not later than 120 days after the borrower has left school—of the date repayment begins.

The repayment disclosure statement must provide the borrower the following information:

- the name and address of the lender and the address to which communications and payments should be sent;
- the estimated balance owed by the borrower on the loans covered by the disclosure statement as of the date on which repayment is due to begin (including capitalized interest, if applicable);
- the stated interest rate on the loan or loans, or the combined interest rate of loans with different rates;
- the amount of the loan, the insurance premium, the loan origination fee, and any other charges, and how they are to be paid;

- the repayment schedule, including when repayment will begin (due date of first payment), when accrued interest must be paid, and the number, amount, and frequency of required repayments;

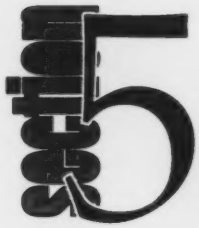
- refinancing and consolidation options;

- for subsidized Stafford Loans, the projected total of interest charges the borrower will pay, if payments are made according to the repayment schedule; for unsubsidized Stafford Loans and PLUS loans, sample projections of monthly payments at various interest rates and with interest capitalization; and

- a statement explaining the borrower's right to make prepayments.

Lender treatment of several loans of same type

Lenders shall treat all of a borrower's loans of the same type as one loan for billing and deferment purposes. A borrower with several Stafford Loans held by a single lender would, therefore, receive one billing notice for all of his or her loans; any deferment received for one of the loans would apply to all of the borrower's Stafford Loans held by that lender. In addition, guaranty agencies must try to ensure that a borrower's loans are maintained by one lender, one loan holder, and one loan servicer, in order to reduce the number of agencies contacting the borrower. These efforts to simplify loan repayment are to be made with the cooperation of the borrower.



Deferment & Forbearance

Deferment periods are periods during which payment of principal on a Federal Family Education Loan (FFEL) is postponed and, for subsidized Federal Stafford Loans, interest subsidy payments are made by the federal government. Once repayment begins, a borrower is entitled to a deferment if he or she meets the requirements for one. However, **a borrower must request a deferment either verbally or on a form the lender provides. A borrower also must provide documentation to the lender in support of the request. For an in-school deferment on a Stafford Loan or Federal PLUS Loan, the borrower may apply on the loan application.**

A borrower who requests deferment should continue making payments on a loan until he or she receives notification that the deferment has been approved. A deferment period begins on the date the qualifying condition, such as unemployment or military service, begins. A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the lender receives the request and supporting documentation.

The following deferments apply to "new" FFEL borrowers (Stafford Loan, PLUS Loan, and Consolidation Loan borrowers). A new borrower for deferment purposes is one whose first loan disbursement was made on or after July 1, 1993 and who, at the time the loan application was certified, had no outstanding balance on **any** FFEL made before that date.

Deferments are authorized for

- ◊ at-least-half-time study by the borrower at an eligible school;
- ◊ study in an eligible graduate fellowship program, including study outside the United States;
- ◊ study in an approved rehabilitation training program for the disabled;

- ◊ up to three years during periods in which the borrower is seeking and unable to find full-time employment; and

- ◊ up to three years during periods that the lender determines will cause the borrower economic hardship.

IN-SCHOOL DEFERMENT

A deferment for full- or half-time study at an eligible school is commonly referred to as an "in-school" deferment. Any school that meets the definition of an eligible institution, whether or not it is currently participating in any SFA Program, is an eligible school for the purpose of the in-school deferment. However, if a school has never participated in the SFA Programs, the Department must determine whether the school meets the definition of an eligible institution before the school may certify an in-school deferment. Please refer to Chapter 3 for additional information on institutional eligibility requirements.

A Stafford Loan or PLUS Loan application can serve as a request for in-school deferment for a full-time student. A lender or guaranty agency may rely on the school's certification of a borrower's eligibility on the loan application for the in-school deferment. The anticipated graduation date on the application is considered to be the end date of the in-school deferment. However, the school is required to update the lender and guarantor on the borrower's status using the Student Status Confirmation Report (SSCR).

Medical Interns and residents

Since July 1, 1993, medical interns and residents have not qualified for in-school deferments because these borrowers are not considered to be maintaining an in-school status. However, medical interns or residents who are new borrowers, may meet the regulatory provisions for an economic hardship deferment. (This type of deferment is not based on the borrower's status as a medical intern or resident.) Dental interns and residents continue to qualify for in-school deferments.

UNEMPLOYMENT DEFERMENT

Before the end of each six-month period of unemployment, a borrower must provide an additional deferment request, affirming his or her continuing search for employment. For details on other unemployment deferment eligibility criteria, see 34 CFR 682.210(h).

ECONOMIC HARDSHIP DEFERMENT

Economic hardship exists when the borrower is receiving payment under a federal or state public assistance program or is working full time and is earning a total monthly gross income that does not exceed the greater of the following two amounts:

- ◊ the minimum wage
- ◊ the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act.

Other criteria for economic hardship

The borrower may also meet other criteria to determine economic hardship. Specifically, the borrower may qualify if he or she is working full time and has a federal education debt burden (including defaulted loans) that is at least 20% of the borrower's total monthly gross income. The borrower's income, minus the educational debt burden, must be less than 220% of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100% of the poverty line for a family of two. A borrower not working full time may qualify if his or her total monthly gross income does not exceed two times either the minimum wage or the poverty line for a family of two and, after deducting the borrower's monthly education loan payments, the remaining amount of the borrower's income does not exceed either the minimum wage or the poverty line for a family of two.

In addition, a borrower may receive an economic hardship deferment under FFEL if he or she has been granted an economic hardship deferment under either the William D. Ford Federal Direct Loan Program (Direct Loans) or the Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested. Other criteria for this deferment are described in 34 CFR 682.210(s)(6).

ADDITIONAL PLUS LOAN DEFERMENT

A PLUS Loan borrower whose loan was first made and disbursed prior to July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed a PLUS Loan is still dependent and meets one of the following conditions:

- ◊ The student is attending an eligible school full time.
- ◊ The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.

◊ The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.

◊ The student is attending an eligible school half time, and he or she meets **all** of the following conditions:

- The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July 1, 1993.
- On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.
- The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

DEFERMENT ELIGIBILITY ISSUES

Retroactive granting of deferment

A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the lender receives the request and supporting documentation. For example, a borrower whose Stafford Loan has entered repayment returns to school full time from September 1996 to May 1997. The borrower requests a deferment and provides supporting documentation to the lender in July 1997. The lender may grant the deferment (provided that the borrower meets all eligibility requirements for it), but the deferment can cover only the portion of enrollment from January 1997 (six months before the lender received the request and documentation) to May 1997 (the end of the qualifying period). If the borrower did not make payments between September 1996 and January 1997, the lender may apply a forbearance to that period to cure the delinquency.

Defaulted loan

A borrower whose loan is in default is **not** eligible for any deferments for that loan—unless the borrower has made payment arrangements acceptable to the lender prior to the payment of a default claim by a guaranty agency.

Please note that a co-maker on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both borrowers are simultaneously eligible for the same or different deferments.

The financial aid administrator may wish to reassure students with previous loans—if they are concerned about changes in deferment conditions—that deferments listed on their promissory notes cannot be changed; however, additional deferments that could apply to **all** borrowers may be added by future legislation.

Because the repayment period on a PLUS Loan begins on the date of last disbursement, a deferment covering such a loan would also begin on the date of the last loan disbursement.

DEFERMENT PROVISION CHART FOOTNOTES

The following footnotes apply to the deferment chart on page 10-63:

1. Includes student PLUS Loan borrowers and Consolidation Loans made prior to November 1, 1983.

2. A borrower who, on the date he or she signs the promissory note, has no outstanding balance on (1) a Stafford Loan, SLS loan, or PLUS Loan made before July 1, 1987 for a period of enrollment beginning before July 1, 1987 or (2) a Consolidation Loan that repaid such a loan.

3. A new borrower who, on the date he or she applies for a loan, has no outstanding balance on a Stafford Loan, SLS loan, PLUS Loan, or Federal Consolidation Loan made before July 1, 1993 **and** whose first disbursement of the loan is made on or after July 1, 1993.

4. Consolidation Loans made on or after July 1, 1993 to borrowers who have no outstanding FFELs other than the FFELs to be consolidated.

5. A Stafford Loan or SLS loan borrower or a PLUS Loan parent borrower who was made or disbursed on or after July 1, 1987 and before July 1, 1993 and who, on the date he or she signed the promissory note, had no outstanding balance on a FFEL made before July 1, 1987 is eligible for deferment while engaged in at least half-time study at a participating school **if** the borrower obtains a Stafford Loan for that period of enrollment. If a new borrower (see footnote 3) under these loan programs receives a first disbursement on or after July 1, 1993, he or she is not required to borrow loans to qualify for the deferment.

6. Deferment approval for a new borrower enrolled in a graduate or postgraduate, fellowship-supported program (that is, a Fulbright Fellowship) will extend for the duration of the fellowship period.

7. Public Law 102-26 authorized, for the period of April 9, 1991 to September 30, 1997, special Stafford Loan deferment and grace period provisions for reservists called up for active duty service in connection with Operation Desert Shield and Operation Desert Storm. These benefits are:

   - A military deferment for the duration of service in connection with Operation Desert Shield or Operation Desert Storm, even if the length of the deferment exceeds the maximum deferment authorized in sections 428(b)(1)(M)(ii) or 427(a)(2)(C)(ii);

   - A six-month post-deferment grace period following an Operation Desert Shield or Operation Desert Storm military deferment; and

   - A one-time six-month post-deferment grace period following an in-school deferment for a borrower who received a military deferment and who later becomes eligible for an in-school deferment.

8. Periods of service in an eligible internship program (See 34 CFR Section 682.210(g)); or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health-care facility that offers postgraduate training. Lenders are now required to grant forbearance to medical interns and residents who have expended their two-year residency deferments before they have completed their intern and residency requirements.

9. A mother who

   - has a preschool-age child,

   - is entering or reentering the work force full time, and

   - is being paid no more than $1 above the minimum wage.

10. A borrower who is seeking, but who is unable to find, full-time employment.

11. A borrower is considered to have an economic hardship if the borrower

    - is receiving payment under a federal or state public assistance program;
    - is working full time but earning an amount that does not exceed the greater of
        - Δ the federal minimum wage, or
        - Δ an amount equal to 100% of the poverty line for a family of two as determined according to section 673(2) of the Community Service Block Grant Act; or
    - meets other regulatory criteria which take into account the borrower's debt-to-income ratio as a primary factor. Specifically, the borrower may qualify if
        - Δ he or she is working full time and has a federal educational debt burden (including defaulted loans) that is at least 20% of the borrower's total monthly gross income. The borrower's income, minus the education debt burden, must be less than 220% of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100% of the poverty line for a family of two.
        - Δ he or she is not working full time and has a total monthly gross income that does not exceed two times either the minimum wage or the poverty line for a family of two and, after deducting the borrower's monthly education loan payments, the remaining amount of the borrower's income does not exceed either the minimum wage or the poverty line.
    - has been granted an economic hardship deferment under either Direct Loans or the Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested.

12. Period for which the borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child (immediately following adoption). The borrower may neither be attending school nor be gainfully employed and must have been enrolled at least half time at an eligible school at some time during the six months preceding the period of parental leave.

13. A PLUS Loan borrower whose loan was first made and disbursed prior to July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed a PLUS Loan is still dependent and meets one of the following conditions:

    - The student is attending an eligible school full time.
    - The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.
    - The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.
    - The student is attending an eligible school half time, and he or she meets **all** of the following conditions:
        - Δ The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July 1, 1993.
        - Δ On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.
        - Δ The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

OPTIONAL FORBEARANCE

If a borrower (or endorser) is willing but financially unable to make the required payments on an FFEL, he or she may request that the lender grant forbearance. Forbearance means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than were previously scheduled.

The borrower may elect to pay nothing during the forbearance period, or if he or she wishes to make reduced payments, a lender may grant forbearance of principal, interest, or both. Forbearance usually requires a **written agreement** between borrower and lender. When forbearance is granted, the borrower is always responsible for repayment of accrued interest charges. The borrower can pay the interest during the forbearance, or he or she can consent to have it capitalized and pay it later. While lenders do not have to grant forbearance, they are encouraged to do so if such action would likely prevent the borrower from defaulting.

Federal Family Education Loan Program Deferment Provisions

Deferment Condition*	Time Limit	Federal Stafford Loans (subsidized & unsubsidized) & Federal Supplemental Loans for Students (SLS)			Federal PLUS Loans				Federal Consolidation Loans	
		Refinanced and Prior Borrowers[1] of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87- 6/30/93)	New Borrowers[3]	Loans Made Before 8/15/83	Refinanced and Prior Borrowers of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87- 6/30/93)	New Borrowers[3]	Prior Borrowers (before 7/1/93)	New Borrowers[4] (after 7/1/93)
Full-time study	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Half-time study[5]	None	N	Y	Y	N	N	Y	Y	Y	Y
Graduate fellowship study[6]	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rehabilitation training	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
U.S. Armed Forces[7] or Public Health Service, or	3 years	Y	Y	N	Y	N	N	N	N	N
Nat'l Oceanic & Atmospheric Admin. (including Military and Public Health Service)	3 years	N	Y	N	N	N	N	N	N	N
Peace Corps	3 years	Y	Y	N	Y	N	N	N	N	N
ACTION	3 years	Y	Y	N	Y	N	N	N	N	N
Temporary total disability (borrower, spouse, or dependent)	3 years	Y	Y	N	Y	Y	Y	N	Y	N
Tax-exempt organization	3 years	Y	Y	N	Y	N	N	N	N	N
Teaching in teacher shortage area	3 years	N	Y	N	N	N	N	N	N	N
Eligible internship or residency program[8]	2 years	Y	Y	N	Y	N	N	N	N	N
Unemployment	2 years	Y	Y	N	Y	Y	Y	N	Y	N
Mother entering work force[9]	1 year	N	Y	N	N	N	N	N	N	N
Inability to secure full-time employment[10]	3 years	N	N	Y	N	N	N	Y	N	Y
Economic hardship[11]	3 years	N	N	Y	N	N	N	Y	N	Y
Parental leave[12]	6 months	Y	Y	N	N	N	N	N	N	N
PLUS borrower/dependent student in-school[13]		N/A	N/A	N/A	Y	Y	Y	N	N/A	N/A

* Y: Deferment Applies N: Deferment Does Not Apply

Footnotes for this chart are provided on pages 10-59 to 10-62.

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If two persons are jointly liable for repayment (are co-makers) of a PLUS Loan or Consolidation Loan, the lender may grant forbearance only if **both** persons meet the conditions for a forbearance.

MANDATORY FORBEARANCE

The law specifies that a lender must grant mandatory forbearance of both principal and interest (if requested) to a FFEL borrower (or endorser) in certain circumstances:

- ◊ If a borrower serving in a medical or dental internship or residency program has already received the maximum two-year internship deferment or is not eligible for such a deferment because he or she is a new borrower, a forbearance must be granted. Forbearance in this instance must be cessation of all payments unless the borrower requests forbearance as an extension of time for making payments or requests a temporary reduction in payments. The forbearance is renewable at 12-month intervals while the borrower remains in the internship/residency program. The borrower must request forbearance in writing for each 12-month period.

- ◊ If a borrower's monthly SFA loan payments are collectively equal to or greater than 20% of the borrower's total monthly income, a forbearance must be granted in increments of up to one year each for periods that collectively do not exceed three years.

- ◊ If a borrower is serving in a national service position for which he or she received a national service education award under the National and Community Service Trust Act of 1993, a forbearance must be granted; the forbearance is renewable in yearly increments during the time the borrower serves in this capacity.

- ◊ If a borrower is eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense under 10 U.S.C. 2171, a forbearance must be granted in yearly increments for as long as the borrower remains eligible.

ADMINISTRATIVE FORBEARANCE

Administrative forbearance does not require agreement from a borrower, and a lender may grant it only under specified conditions authorized by law or by the Department in regulations. Upon notifying the borrower, a lender may grant forbearance for payments of interest and principal that are overdue

- ◊ when a deferment is granted and the lender later learns that the borrower did not qualify for the deferment,
- ◊ at the beginning of a deferment period,
- ◊ from the time the borrower entered repayment until the first payment was due,
- ◊ during a period of national military mobilization such as Bosnia and Operation Desert Storm, and
- ◊ during a period prior to a borrower's filing of bankruptcy.

A lender may grant administrative forbearance

- ◊ during a period not to exceed 60 days while the lender is awaiting documentation of a borrower's death or total and permanent disability;
- ◊ for a period of delinquency at the time a loan is sold or transferred, as long as the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer;
- ◊ for periods necessary to determine a borrower's eligibility for loan discharge because of past attendance at a school that later closed or because of false certification of loan eligibility;
- ◊ for periods when a borrower's or endorser's eligibility for bankruptcy discharge is being determined; or
- ◊ for a period of delinquency that may remain after a borrower ends a period of deferment or mandatory forbearance until the next due date is established.

Natural disasters

When the Department notifies loan holders that specific geographical areas have been designated as natural disaster areas, the holders are strongly encouraged to grant administrative forbearance for up to three months to assist borrowers who have been affected by the disaster and who contact the holders and request assistance. A borrower in this situation is not required to sign a forbearance agreement or to submit supporting documentation. For example, victims of Hurricanes Marilyn and Opal were granted administrative forbearance.

MANDATORY ADMINISTRATIVE FORBEARANCE

FFEL program regulations specify that a lender must grant a mandatory administrative forbearance to FFEL borrowers in certain circumstances:

- ◊ For up to three years when the borrower makes reduced payments because the effect of a variable interest rate change requires the extension of the maximum repayment term (under a standard or graduated repayment schedule), forbearance must be granted.

- ◊ For up to five years when the borrower makes reduced payments because an income-sensitive repayment schedule requires the extension of the maximum repayment term, forbearance must be granted.

Exceptional circumstances

- ◊ When the Department notifies the lender that exceptional circumstances (such as a local or national emergency or a military mobilization), a forbearance must be granted. Borrowers subject to a military mobilization must provide supporting documentation as proof.

INTEREST ACCRUING DURING DEFERMENT AND FORBEARANCE

Interest continues to accrue on all loans during deferment periods. Interest also accrues on all FFELs during forbearance. Unless a borrower qualifies for interest subsidy during deferment, he or she is responsible for paying this interest and may do so during deferment or forbearance. Or, a lender may agree to capitalize the interest (add it to loan principal) when repayment of the principal resumes.

Interest that accrues during a deferment or forbearance may be capitalized no more frequently than quarterly and when repayment resumes. Procedures for capitalization of interest under different deferments may vary. The borrower should be instructed to read his or her promissory note and to check with the lender or guaranty agency for details on capitalization of interest. If a borrower agrees to pay interest during deferment but fails to do so, the borrower will be considered delinquent.

Section 6 Loan Discharge

DEATH AND PERMANENT DISABILITY DISCHARGES

If a FFEL borrower dies or becomes totally and permanently disabled, the borrower's obligation to repay the loan is canceled, and the loan holder is not permitted to collect the loan from an endorser or from the borrower's estate. Certification of total and permanent disability from a qualified physician is required for loan cancellation. A Federal PLUS Loan borrower's debt will be canceled if the student for whom the parent borrowed the PLUS Loan dies. An endorser of a loan canceled because of death or total disability is not obligated to repay the loan. However, if a couple consolidates loans jointly, the death or total disability of one of the borrowers does not relieve the other of the repayment responsibility. If both borrowers have a condition (not necessarily the same one) under which they qualify for loan cancellation, the loan may be canceled.

BANKRUPTCY DISCHARGE

Bankruptcy—Dear Colleague Letter GEN-95-40, dated September 1995

A borrower may also have his or her loan discharged in bankruptcy. A federal student loan is not dischargeable in bankruptcy unless

- the loan has been in repayment for at least 7 years, excluding any periods of deferment or forbearance ("suspended repayment") or
- the bankruptcy court has determined that repayment of the loan would cause an undue hardship to the debtor and his or her dependents.

OTHER LOAN CANCELLATION PROVISIONS

Closed school discharge

A borrower's obligation to repay a FFEL received on or after January 1, 1986 will be canceled if the student (the student borrower or the student on whose behalf a parent obtained a PLUS Loan) was unable to complete his or her program of study because the school closed or if the student

withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if an extension is deemed appropriate by the Department. For additional information on this discharge provision, see 34 CFR 682.402(d).

False certification of ability to benefit—Dear Colleague Letter GEN-95-42, dated September 1995

A borrower's obligation to repay may be canceled if the school

- ◊ falsely certified the student's loan eligibility by certifying that he or she had the ability to benefit from its training or
- ◊ signed the borrower's name without borrower authorization on the loan application, promissory note, loan check, or electronic funds transfer (EFT) authorization.

If either of the above conditions occurs, the loan may be discharged under this provision.

Forgery

In the case of a borrower requesting a discharge because the school signed his or her name on the loan application or promissory note, the borrower must state that the signature on either of those documents was not his or her own. The borrower also must provide five different signature specimens, two of which must be from no earlier or later than one year before or after the date of the contested signature. (These signature specimens are also required under the condition described in the next paragraph, unauthorized signature for electronic funds transfer.)

Unauthorized signature

In the case of a borrower's claiming false certification based on unauthorized signature on a loan check or an EFT authorization, the borrower must certify that he or she did not endorse the loan check or sign the EFT authorization and that he or she did not authorize the school to do so. The borrower must state that he or she did not receive the proceeds of the contested disbursement either through actual delivery of the loan funds or by a credit to the school's account.

Interest and collection fees, as well as loan principal, will be discharged if cancellation is granted. The Department will attempt to collect from the school the loan amount discharged, including any refund owed the student. For additional information on false certification, see 34 CFR 682.402(e).

A closed school or false certification discharge also relieves any endorser of the obligation to repay the loan.

EFFECT ON A BORROWER'S SFA ELIGIBILITY

An applicant who applies for SFA funds and who included a defaulted federal student loan that is **nondischargeable** in his or her bankruptcy

schedules will be considered ineligible for further federal student aid until he or she resolves the default. Such a borrower can negotiate a satisfactory repayment arrangement with the holder of the debt. The holder can set the terms of the satisfactory repayment arrangement.

If default occurred prior to the borrower's bankruptcy filing and the loan was discharged in the bankruptcy, the applicant is eligible for further SFA funds. Because the borrower is no longer obligated to repay the debt, he or she does not have to establish satisfactory repayment arrangements.

The Department no longer requires as a condition for SFA eligibility reaffirmation of a loan that was discharged in bankruptcy or for total and permanent disability. However, a borrower whose loan debt was canceled due to total and permanent disability and who later applies for a FFEL must

- ◊ provide a physician's certification that the borrower is able to engage in "substantial gainful activity" such as working or attending school, and

- ◊ sign a statement affirming that the new loan for which the borrower is applying cannot be canceled in the future based on present impairment (unless the borrower's condition substantially deteriorates).

If a borrower's defaulted loans are discharged under the false certification or closed-school provisions, the borrower (if otherwise eligible) regains eligibility for SFA funds. In addition, any adverse credit history will be deleted from credit-reporting agencies' records. The period of study the student was unable to complete because of a school's closing will not be counted in calculating the student's eligibility for additional student financial assistance.

There are some defaulted loans on which the Department or the appropriate guaranty agency has suspended collection activity after several unsuccessful attempts to collect these loans. If a borrower of such a loan wishes to borrow again under the FFEL Program, he or she must reaffirm the previous loan amount. In addition, the borrower must make satisfactory repayment arrangements on the defaulted debt.

Reaffirmation is the legal acknowledgment of the loan. Legally acknowledging the loan may require the borrower to

- ◊ sign a new promissory note or repayment schedule for the loan or

- ◊ make a payment on the loan.

When loans are reaffirmed, they count toward the borrower's aggregate loan limits.

PAYMENTS MADE AFTER DISCHARGE

If a lender receives payments on a borrower's student loan account after the guaranty agency notifies the lender of a discharge (on the basis of total and permanent disability, death, bankruptcy, false certification, or school closing), all of these payments must be returned to the sender. At the same time, the lender must notify the borrower that there is no further loan obligation.

REPAYMENT BY THE U.S. DEPARTMENT OF DEFENSE

Currently, if a student borrower decides to serve as an enlisted person in certain specialties in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard, the Department of Defense (as an enlistment incentive) will repay a portion of his or her loan. For more information, a student should contact his or her local Army or Air National Guard recruiting office. This is a recruitment program and does not pertain to an individual's prior service. **This program is not a FFEL cancellation provision.**

Loan repayment under this program is made directly to the lender and is not considered financial aid. Such repayment is considered as student income when loan eligibility is calculated.

Section 7 Delinquency and Default

Most borrowers repay their loans on time, but some do fall behind on their payments for a variety of reasons. A financial aid administrator should advise a student to maintain contact with the lender or loan servicer to avoid delinquency and default if the borrower has repayment problems.

When a scheduled payment on a Federal Stafford Loan, Federal Supplemental Loans for Students (SLS) loan, or Federal PLUS Loan is not made on time, the loan becomes delinquent. To prevent defaults, a lender is required to repeatedly attempt to contact a delinquent borrower by phone and mail, to use skip-tracing techniques to locate the borrower if his or her whereabouts become unknown, and to request the guaranty agency's assistance to resolve repayment problems. If a borrower is late in making a payment, the lender may require the borrower to pay a late charge. The borrower will also be required to pay collection costs, such as collection agency fees, attorney's fees and court costs, if required in the borrower's promissory note.

For loans that enter delinquency on or after April 7, 1986, default occurs when a loan repayable in monthly installments becomes 180 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 240 days delinquent.

CONSEQUENCES OF DEFAULT

If the borrower's delinquency persists, the lender must accelerate the loan; that is, the lender must demand—using a "final demand" letter—the entire balance of the loan in one payment. The lender must also file a default claim with the guaranty agency on a seriously delinquent account that is more than 180 days delinquent (or 240 days delinquent for a loan repayable in installments less frequent than monthly). The guaranty agency reviews the lender's collection efforts before paying the lender's default claim. If the guaranty agency pays the default claim, the agency must continue collection efforts. Before reporting the default to a national

credit bureau or assessing collection costs, the guaranty agency will provide the borrower with

- ◊ a written notice of its proposed actions,
- ◊ an opportunity to enter into a repayment agreement, and
- ◊ an opportunity for an administrative review of the status of the loan.

Credit bureau notification

Once a guaranty agency notifies a credit bureau of a borrower's default, the credit bureau may provide inquirers with that information for up to seven years from the date the loan is first reported as a default; for up to seven years from the date the guaranty agency pays the default claim; or, for a borrower who enters repayment after default and again allows the loan to default, up to seven years from the date the loan enters default the second time.

Required loan collection efforts—34CFR 682.411

Collection efforts by the guaranty agency include a series of letters and phone calls to persuade the borrower to enter repayment on the defaulted loan and may also include mandatory assessment of collection costs, garnishing up to 10% of the defaulter's disposable pay, withholding ("offsetting") part or all of a defaulter's federal and/or state income tax refund and other payments that the federal government might otherwise make to the borrower, and filing suit against the borrower.

A guaranty agency must provide counseling and consumer information to a borrower by the 10th working day after the agency receives a request from the lender for preclaims assistance (preclaims assistance is the collection assistance the guarantor makes available to the lender no later than the 90th day of delinquency). As part of the counseling, the guaranty agency must inform the borrower of preventive measures to avoid default, such as income-sensitive or graduated repayment, deferment, forbearance, and consolidation of delinquent loans under the FFEL Program or the Federal Direct Consolidation Loan Program.

Limit on collection costs when defaulted loan is consolidated—34CFR 682.401

A guaranty agency may add collection costs in an amount not to exceed 18.5% of the outstanding principal and interest to a defaulted FFEL that is included in a Federal Consolidation Loan or Direct Consolidation Loan.

A guaranty agency must initiate administrative wage garnishment action not later than 225 days after it pays a default claim. If the borrower has insufficient income to garnish but does have assets from which the debt can be satisfied, the borrower's loan account must be assigned to the U.S. Department of Education for litigation.

All guaranty agency administrative wage garnishments must be performed in accordance with the procedures described in Section 488A of the Higher Education Act of 1965 (HEA), as amended, 34 CFR 682.410(b)(10), and specific guidance the Department has issued. If the defaulter is sued, wage garnishment may be included in the court's ruling. The Higher Education Technical Amendments of 1991 (P.L. 102-26) provided for continuation of garnishment, offset action, or a lawsuit regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts. The Higher Education Amendments of 1992 permanently abolished statutes of limitation that might otherwise have applied. The abolition applies to all pending cases and outstanding debts, as well as to current cases.

Ineligibility for additional SFA funds

A student with a defaulted loan is rendered ineligible for all Student Financial Assistance (SFA) funds at the time the default occurs (that is, once the loan reaches 180 days of delinquency for loans repayable monthly and 240 days for loans repayable less frequently). Even if a defaulted borrower's debt has been determined to be totally uncollectible and was closed out (written off) with the principal amount being reported to the Internal Revenue Service as taxable income, the borrower is still considered to be in default and is ineligible for federal student aid.

If a borrower who is in default on an SFA loan held by the Department or by a guaranty agency applies for federal student aid, the resulting *Student Aid Report* (SAR) will indicate that the borrower is in default and, thus, not eligible for aid under the SFA Programs.

Ineligibility for deferment

Once a guaranty agency pays a lender's default claim, the borrower is ineligible for any type of deferment on the loan, and he or she will not be able to receive any federal financial aid until the obligation is discharged or until the borrower has made satisfactory payment arrangements with the lender, the guarantor, or the Department. A lender or guarantor may grant forbearance to a borrower whose loan is delinquent or in default. Even after a borrower makes satisfactory repayment arrangements to repay the defaulted loan in order to regain eligibility for SFA funds, the borrower must continue to make scheduled payments on the defaulted loan. If the borrower is unable to do so while attending school, he or she should request forbearance on the loan.

If, after a borrower has defaulted, he or she receives a loan discharge under the bankruptcy, total and permanent disability, closed school, or false certification discharge provision, the loan is no longer considered to be in default, and the borrower is eligible for further federal student aid.

REINSTATEMENT OF ELIGIBILITY AFTER DEFAULT

If a borrower and guaranty agency reach a compromise agreement to settle the debt for less than the total amount due, the borrower may be eligible for additional federal student aid once the compromised amount of the debt is paid. If the borrower chooses to reaffirm his or her defaulted loan obligation and makes satisfactory payment arrangements to repay the debt (six on-time, reasonable and affordable, consecutive, voluntary monthly payments), he or she may regain eligibility for SFA funds. A student who resolves a default by consolidating a defaulted FFEL also regains eligibility once the defaulted loan has been paid in full by the Consolidation Loan or Direct Consolidation Loan. See Section 8 of this chapter for more information on consolidating defaulted FFELs.

A guaranty agency must inform a defaulted borrower who has made six payments as described above of the possibility of loan rehabilitation (after the borrower makes six more payments). Reinstatement of eligibility does not bring a loan out of default, and the borrower is not eligible for deferment; however, loan rehabilitation accomplishes both.

If a student regains eligibility during an enrollment period (if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period, for example), the student regains eligibility for the entire period of enrollment (usually an academic year) in which he or she regained eligibility status.

If a borrower has made satisfactory repayment arrangements to repay a defaulted loan, his or her SAR will indicate that the borrower is eligible but will include a warning that if scheduled payments are not made on the loan, future federal student aid will be denied. The financial aid administrator may reconcile the SAR with official paperwork from the lender stating that the default has been satisfied. This documentation must be kept in the student's file. The financial aid administrator may then determine the student's eligibility for a loan.

LOAN REHABILITATION

Loan rehabilitation is available to a borrower who has defaulted on a FFEL and who meets certain conditions. The law requires a guaranty agency to provide a loan rehabilitation program that will allow a defaulter the opportunity to make 12 "reasonable and affordable" consecutive monthly payments on a defaulted FFEL. The Department expects each guaranty agency to determine what constitutes a reasonable and affordable payment amount on a case-by-case basis, after examining the borrower's financial information. When establishing a reasonable and affordable payment amount, a guarantor may not require a set minimum

monthly payment amount. A guarantor is required to document its determination of the appropriate payment amount only if the payment is less than $50. Each borrower must receive a written statement specifying what the reasonable and affordable payment amount is as determined by the agency and must be granted an opportunity to object to the terms.

After a borrower makes 12 consecutive monthly payments (which may include the six consecutive monthly payments necessary to regain SFA eligibility) on the defaulted loan, the guaranty agency (or the Department, if the Department is holding the loan) will decide if the borrower is a good candidate for loan rehabilitation. If so, the loan holder will try to sell the loan to an eligible FFEL lender. A borrower who has made more than 12 consecutive, voluntary monthly payments at the time he or she requests rehabilitation is immediately eligible for consideration, if those payments were determined to be reasonable and affordable and if they were made on time. Payments secured from a borrower on an involuntary basis, through means such as wage garnishment, cannot be counted towards the borrower's required 12 consecutive monthly payments.

Once eligible for rehabilitation, the debtor must continue to make payments while the guaranty agency transfers the loan to a lender. Because of loan processing procedures, the borrower may have to submit more than 12 payments before the loan is rehabilitated.

Once a loan is rehabilitated, the borrower regains eligibility for any remaining deferment benefits. For example, if a borrower who has a loan that is eligible for up to three years of unemployment deferment receives two years of this deferment, later defaults, then rehabilitates the loan, he or she is eligible for one more year (not another full three) of unemployment deferment after rehabilitation.

The holder of the rehabilitated loan must promptly notify at least one credit bureau of the loan's rehabilitated status. The notification of credit bureaus is an important benefit to borrowers, because the borrower's record of default is removed from his or her credit history. A borrower with questions about loan rehabilitation should contact the agency holding the defaulted loan.

A borrower who wishes to rehabilitate or consolidate a loan on which a court judgment has been secured must sign a new promissory note prior to the sale of the loan to an eligible lender. (The Department has previously provided guidance stating that a guaranty agency may not exclude borrowers with judgment accounts from consolidating their defaulted loans.) Because a judgment is not always repaid under the original terms and conditions of the FFEL promissory note, the judgment is not viewed as an eligible FFEL. Therefore, rehabilitation or consolidation of a loan on which a court judgment has been secured

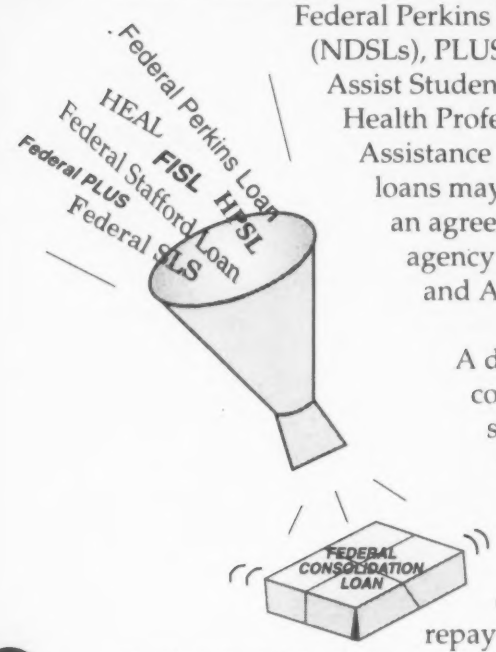
requires the guaranty agency to vacate the judgment and to convert the judgment debt into an eligible FFEL. This conversion takes place when the borrower makes a new promise to repay the debt by signing a FFEL promissory note on the amount due on the judgment.

section 8 Consolidation Loans

Schools must present refinancing and consolidation options to student borrowers during exit counseling. Once a borrower leaves school, he or she may consider consolidation as an option to make repayment easier. The student must contact his or her lender(s) to request these options, and any agreement to refinance or consolidate loans is between the borrower and lender. A student should keep in mind that loan consolidation does not increase Federal Stafford Loan limits; aggregate loan limits must include any portion of a borrower's Federal Consolidation Loan used to repay a Stafford Loan.

FEDERAL CONSOLIDATION LOANS

Loan consolidation enables a borrower with several loans to obtain one loan with one interest rate and repayment schedule. Stafford Loans (both subsidized and unsubsidized), Federal Insured Student Loans (FISLs), Federal Perkins Loans, National Direct Student Loans (NDSLs), PLUS Loans to students, Auxiliary Loans to Assist Students (ALAS), parent PLUS Loans, SLS loans, Health Professions Student Loans, Health Education Assistance Loans, and Nursing Student Loan Program loans may be consolidated only by lenders that have an agreement with the Department or a guaranty agency for that purpose. (PLUS Loans to students and ALAS are former names of the SLS Program.)



A defaulted loan may be included in a consolidation loan if the borrower has made satisfactory repayment arrangements with the holder to repay the loan. Three voluntary, on-time, consecutive monthly payments under a "satisfactory repayment arrangement" are required to consolidate a defaulted loan. Satisfactory repayment arrangements are discussed in Section 7 of this chapter. A borrower can also consolidate a defaulted loan without having to make three required payments, if he or she agrees to repay the Consolidation Loan under an income-sensitive repayment plan.

Loan consolidation allows a lender to pay off the existing loans and make one Consolidation Loan to replace them. Consolidation may include, in addition to unpaid principal and interest on the underlying loans being consolidated, late charges and collection costs applied to those loans. A guaranty agency (or the Department, if it is holding the loan) may assess the borrower collection charges or late fees up to 18.5% of the principal and interest that is outstanding at the time of loan payoff certification on the defaulted FFEL that is to be included in a Federal Consolidation Loan.

A lender must offer standard, graduated, and income-sensitive repayment options on Consolidation Loans.

APPLYING FOR A CONSOLIDATION LOAN

Generally, a borrower submits a Consolidation Loan application to a lender holding at least one of the loans to be consolidated. If none of those lenders agrees to consolidation, the borrower may apply to any other lender participating in the Consolidation Loan Program.

The borrower must give the lender all relevant information concerning his or her existing loans. A borrower may add to an existing Consolidation Loan eligible loans received before the date of consolidation, if the loans are added within 180 days after the date the Consolidation Loan is made.

BORROWER ELIGIBILITY FOR A FEDERAL CONSOLIDATION LOAN

To be eligible for a Consolidation Loan, a borrower

- ◊ must be in the grace period or in repayment status on all loans being consolidated;
- ◊ if in default,[1]
  - must have made satisfactory arrangements to repay the defaulted loan and must have made at least three voluntary, on-time, consecutive monthly payments or
  - must agree to repay the Consolidation Loan under the income-sensitive repayment plan (with no payments required prior to consolidation);

[1] Note that a borrower who wishes to consolidate a loan on which a court judgment has been secured must sign a new promissory note for that loan prior to consolidating it. See page 10-75 for more information.

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- must not have another Consolidation Loan application pending;
- must agree to notify the loan holder of any address changes; and
- must certify that the lender holds at least one of the borrower's outstanding loans that are being consolidated or that the borrower has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

There is no longer a minimum debt level a borrower must have to qualify for consolidation.

Married couple consolidating loans

A married couple may consolidate individual loans if both spouses agree to be held jointly and separately liable for repayment of the Consolidation Loan regardless of the amount of their individual debts and regardless of any future change in marital status. If one spouse dies, becomes totally and permanently disabled, has collection of his or her loan obligation stayed by a bankruptcy filing, or has that obligation discharged in bankruptcy, the other borrower remains obligated to repay the loan.

Both spouses must meet the eligibility requirements to qualify for a Consolidation Loan. Only one spouse is required to certify that the lender holds at least one of his or her outstanding loans that are being consolidated or that he or she has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

Joint consolidators are held jointly and separately liable for the Consolidation Loan. To receive a deferment, forbearance, or discharge, both borrowers must meet the qualifying conditions, unless a discharge is due to school closure or false certification. In that case, only one borrower must qualify; however, only the portion of the Consolidation Loan affected by the school closure or false certification can be discharged, unless the borrower's spouse qualifies for some type of discharge.

Federal Direct Consolidation Loans

If a borrower is unable to obtain a Consolidation Loan from a lender eligible to make such loans, the borrower may apply through the U.S. Department of Education for a Federal **Direct** Consolidation Loan under the William D. Ford Federal Direct Loan Program. The borrower must certify that he or she has been unable to obtain from an eligible lender a Consolidation Loan or a Consolidation Loan with income-sensitive repayment terms acceptable to the borrower. See Chapter 11 for more information on Federal Direct Consolidation Loans. The eligibility criteria for Federal Direct Consolidation Loans differ from the criteria for Federal Consolidation Loans.

Generally, the first payment on a Consolidation Loan is due within 60 days after consolidation. (The repayment period begins on the day the Consolidation Loan is disbursed.) There are a number of repayment options, including the graduated repayment and income-sensitive repayment options mentioned previously. The repayment period varies from 10 to 30 years, depending on the amount consolidated and on other student loans the borrower may have. If the amount to be consolidated is less than $7,500, for example, the repayment period must not exceed 10 years.

Interest rate

The interest rate for a Consolidation Loan is the weighted average of the interest rates of the loans consolidated (rounded to the nearest whole percent). When determining the weighted average of interest rates, the interest rate used for each loan is that which is in effect for it at the time the loan is paid in full through consolidation.

There are no insurance premiums or other fees for loan consolidation.

Interest subsidy

A borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans. For information on deferment provisions for Consolidation Loans, see Section 5 of this Chapter.

A borrower interested in consolidation should understand that consolidating Perkins Loans (or NDSLs) will result in

- ◊ a higher interest rate than he or she is paying on those loans,
- ◊ less deferment provisions than he or she has available under the Perkins Loan (or NDSL) Program, and
- ◊ the loss of Perkins Loan (or NDSL) cancellation provisions on the loans being consolidated.

The student should also understand that consolidating Stafford Loans and SLS loans may result in higher interest rates than he or she was paying on those loans. However, because Consolidation Loans may have repayment periods as long as 30 years, the borrower's monthly repayment amount may be reduced.

If a lender received a Consolidation Loan application before January 1, 1993, the borrower is responsible for the interest on the loan during periods of deferment. If a lender received a Consolidation Loan application between January 1, 1993 and August 10, 1993, interest that

accrues during periods of deferment is paid by the federal government. For loan applications received on or after August 10, 1993, the borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans.

For information on deferment provisions of Consolidation Loans, see the deferment chart on page 10-63.

Counseling Students

Both entrance and exit counseling are requirements of the Federal Family Education Loan (FFEL) Program. Exit counseling is also authorized under the law and is required to be in-person counseling. A school must keep documentation in each student borrower's file showing that both entrance and exit counseling were provided to him or her. Effective loan counseling is an ongoing process, and reinforcement of points made during the entrance interview is advisable whenever a financial aid administrator meets with a student to discuss his or her loans. For example, the financial aid administrator has an opportunity during each delivery of loan proceeds to counsel students concerning satisfactory academic progress, constraints on aid, the obligation to notify his or her lender about a change in address, and so on. If loan counseling is ongoing, the exit interview is simply a review of information conveyed during the course of the student's program of study and a means of presenting additional material to prepare the student for repaying loans.

Dynamic presentation of material at both entrance and exit interviews—using charts, handouts, audiovisual materials, and question-and-answer sessions—can convey the financial aid administrator's message with greatest effect. The financial aid administrator may wish to contact guaranty agencies, lenders, and other organizations associated with postsecondary education to see what videos, pamphlets, and other materials are available to supplement the school's counseling.

The illustration on page 10-91 summarizes information to be covered during the entrance and exit interviews or counseling sessions. The core items should be covered as part of both entrance and exit counseling.

ENTRANCE COUNSELING

A school must conduct entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a borrower at the school. The counseling must be conducted in person, by audiovisual presentation, or by computer-assisted technology, and a person knowledgeable about Student Financial Assistance (SFA) Programs must

be available for questions shortly after the counseling session. For a borrower who is receiving his or her first loan at a school and who is involved in the school's junior-year-abroad program or other off-campus program, the school must provide entrance counseling information by mail before releasing loan proceeds. A correspondence school must also provide the information by mail before releasing loan proceeds.

Recognizing that each school and each student's situation is different, the Department provides the following suggestions for presentation of the required information. The emphasis may be shifted, but all the points made below should be covered during entrance counseling:

- **An overview of all possible sources of aid is important**, with an emphasis on the constraints on student aid and a discussion of "reasonable expenses" in the context of grants and loans. A school's Program Participation Agreement (PPA) requires it to provide, in addition to state grant assistance information, a source of information for programs in the student's home state. Information on other loan sources, such as health professions loans, also should be provided.

- **Terms and conditions of various loan programs should be reviewed.** In addition to providing basic information on loan limits, loan fees, and interest rates, a counselor should explain terms such as deferment, forbearance, and cancellation. The counselor might also cover available repayment options, such as loan consolidation and refinancing, at this point. (See Section 8 of this chapter for a brief discussion of loan consolidation and refinancing.)

- **The obligations of loan repayment should be emphasized.** You should advise the student to read carefully the loan application, the disclosure statement, and the promissory note with the borrower's rights and responsibilities before signing any of those documents. Often a student loan is the borrower's first experience in obtaining a loan of any kind, and a counselor should clearly explain basic loan terminology to ensure that a borrower is aware of his or her obligations. The counselor should define terms such as "loan servicer" and should explain the process of selling loans to other lenders or to "secondary markets." Lenders and guaranty agencies provide explanations about these and other terms in the material they make available to students and schools. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

◊ **The obligations regarding repayment should be thoroughly covered**, and a counselor should explain that the **exact** repayment schedule will not be provided until loan repayment begins. Although the disclosure statement and the promissory note contain the total dollar amount of the loan, including interest and fees, they do not necessarily specify the amount of each payment or the frequency with which payments will be made. The counselor should remind the student that certain fees will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. The counselor should emphasize that the borrower is required to repay the full loan even if he or she does not complete the program or even if the program doesn't meet the borrower's expectations. This is one point at which the school's refund policy could be explained in detail so that a student knows that if he or she leaves school (for whatever reason), a portion of the loan disbursement may be returned to the lender.

◊ **It is the student's obligation to keep the lender informed about changes in his or her status, enrollment, or financial condition.** The student or parent borrower is required to inform the lender if the student

- fails to enroll in school for the period for which the loan was intended,
- changes schools,
- changes his or her name or address (including changes in the permanent address while in school),
- graduates or withdraws from school,
- wishes to apply for a deferment,
- wishes to request forbearance, or
- is having difficulty repaying the loan.

◊ **It is the student's obligation to maintain satisfactory academic progress.** See Chapter 2 for more information.

◊ **Personal financial planning should be emphasized**. A student should ask himself or herself questions like "Can I handle Work-Study and still keep my grades up?" "Can I afford loan payments when I graduate if I major in _____?" Financial planning forces the student to consider whether he or she is ready to handle the loan burden. If not presented previously, charts should be shown illustrating the monthly repayment for

various loan amounts. The counselor should explain the consequences of multiple borrowing, along with general information on average loan indebtedness. The student also should consider total loan indebtedness as the result of borrowing under more than one loan program over a long period of time—for example, as an undergraduate and a graduate student. At this point, information on loan consolidation—such as considerations for long-range financial planning—might be covered.

◊ **A student should keep a copy of each document concerning education loans and any other student aid received.** This would be a good time, if the financial aid administrator has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep, at a minimum, the following records:

- a copy of the loan application,
- a copy of the promissory note and the loan disclosure statement,
- a record of any loan checks received,
- the loan repayment schedule, sent to the borrower when repayment begins,
- a copy of any requests for deferment or forbearance, and of any other correspondence with the lender,
- a record of payments made by the borrower—including canceled checks and money order receipts—and
- the most recent name and address of the lender, the loan servicer, and the guarantor of the loan.

◊ **Borrower rights and responsibilities should be explained.** This could be a part of the discussion on obligations of loan repayment or could be treated separately. While many borrower rights and responsibilities will be covered in the course of the presentation, it's important to review them as a unit at some point.

The borrower has a right to

- written information on loan obligations, including loan consolidation and information on borrower rights and responsibilities;

- an explanation of default and its consequences;
- a copy of the promissory note and return of the note when the loan is paid in full;
- before repayment, information on interest rates, fees, the balance owed on loans, and a loan repayment schedule;
- notification, if the borrower is in the grace period or in repayment, no later than 45 days after a lender assigns, sells, or transfers his or her Stafford Loan or Federal PLUS Loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

  Δ the identity of the purchasing lender and the name and address of the new lender or servicer,

  Δ notice of the loan assignment, and

  Δ the telephone number of both the purchasing and selling lenders and servicers.

  Notification of this change must be made either jointly or separately by the purchasing and selling lenders. If a borrower is in a grace period or in repayment, the last school the borrower attended may request the following from the guaranty agency before the beginning of the repayment period: notification of the sale, transfer, or assignment of the loan to another holder, and the address and telephone number of the new loan holder.
- federal interest benefits, if qualified;
- a grace period, if applicable, and an explanation of what that means;
- prepayment of the loan without penalty;
- deferment, if the borrower qualifies; and
- request forbearance (but the lender may not grant it).

The financial aid administrator must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at your school.

The borrower is required to

- repay the loan according to the repayment schedule and notify the lender of anything that affects ability to repay or eligibility for deferment or cancellation;
- notify the lender if he or she graduates, withdraws from school, drops below half-time status, transfers to another school, or changes name, address, or Social Security Number;
- notify the lender if he or she fails to enroll for the period covered by the loan;
- notify the school of a change of address; and
- attend an exit interview before leaving school.

◊ **Emphasize to students the consequences of delinquency and default.** A counselor should stress that once a student is in default, there is little that can be negotiated with regard to repayment. For example, a defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule.

Again, please note that a person knowledgeable of SFA Programs must be available to answer a student's questions—either in person or on the telephone—immediately or shortly after the entrance counseling session.

EXIT COUNSELING

A school must conduct exit counseling in person individually or in groups shortly before a borrower ceases at-least-half-time study. One of a borrower's obligations is to attend an exit counseling session. If the borrower drops out without notifying the school, the financial aid administrator must mail exit counseling material to the borrower at his or her last known address within 30 days after learning that the borrower has left school or failed to attend an exit counseling session. For correspondence programs, the financial aid administrator must send the borrower written counseling materials within 30 days after the borrower completes the program. The financial aid administrator must request the return to the school of information required under the Higher Education Amendments of 1992.

A school mailing these exit materials is not required to use certified mail with a return receipt requested. The school must, however, maintain in each borrower's file documentation verifying the school's compliance with the counseling requirements of 34 CFR 682.604(g).

If a borrower fails to provide the information, the school is not required to take any further action. As with entrance counseling, if the school is complying with the required default reduction measures, testing of information presented must be part of the exit counseling process.

During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the name and address of the borrower's expected employer, and the address of the borrower's next of kin. A schools must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number. Within 60 days after the exit interview, the financial aid administrator must provide the guarantor (indicated in the borrower's student aid records) with any updated information he or she receives from the borrower.

As the entrance and exit counseling illustration on page 10-91 indicates, much of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to loan repayment obligations and debt-management strategies. At the exit counseling session, the following points should be stressed:

- ◊ **Financial planning for loan repayment is essential to debt management.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. He or she should also emphasize that the loan payment is a fixed cost, like rent or utilities. Data on average anticipated monthly payments are useful, especially if students have not yet received loan repayment schedules.

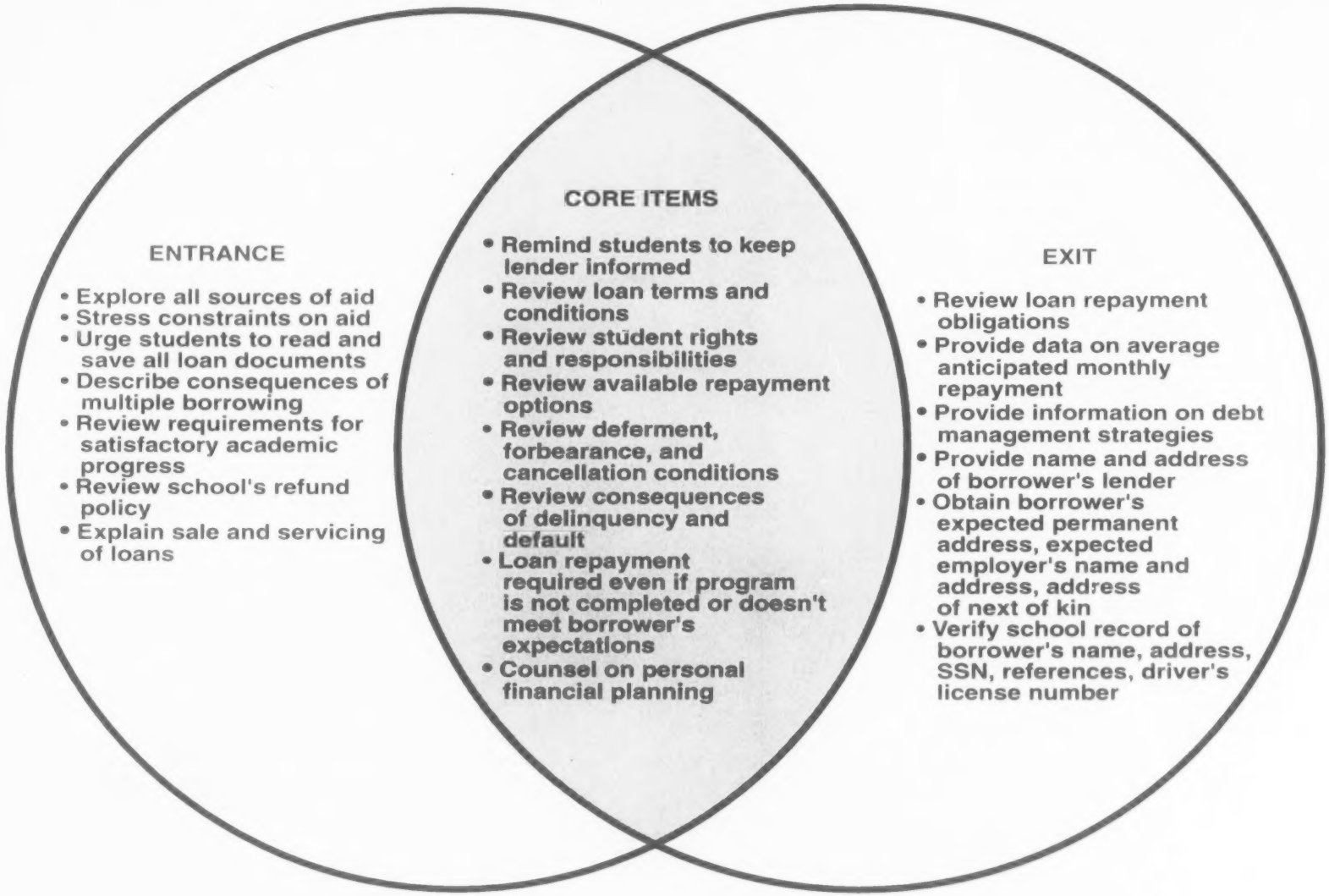
- ◊ **Loan repayment obligations should be reviewed**, with emphasis on keeping the lender informed if the borrower is having difficulty in making loan payments. A counselor should stress the importance of communicating with the lender in writing and of keeping copies of all communication with the lender. The counselor should remind a borrower that he or she must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. Lenders send payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower or his or her obligation to make payments.

- **Loan refinancing and loan consolidation should be explained** again, and a student should be referred to his or her lender for more detailed information about these options. Section 8 provides basic information on refinancing and loan consolidation.

- **Review deferment, forbearance, and cancellation provisions** of Stafford and PLUS Programs. A counselor should remind students that these provisions require action on their part; a borrower must apply to the lender for deferment, forbearance, or loan cancellation, by using appropriate forms the lender provides. The counselor should emphasize that while waiting for approval of the request for any of these conditions, the borrower should continue to make payments on the loan to avoid delinquency and default.

- **Emphasize the consequences of delinquency and default, and the importance of keeping the lender informed** of changes in status, in address, or of problems when the borrower is having difficulty making loan payments.

- **Obtain, from each borrower, a permanent address, address of the borrower's next of kin, and the name and address of the borrower's expected employer,** if possible. As indicated earlier, within 60 days after an exit interview a school must provide the guaranty agency indicated in the borrower's student aid records with the borrower's name, latest known address, employer, and employer address.


ENTRANCE
• Explore all sources of aid
• Stress constraints on aid
• Urge students to read and save all loan documents
• Describe consequences of multiple borrowing
• Review requirements for satisfactory academic progress
• Review school's refund policy
• Explain sale and servicing of loans
CORE ITEMS
• Remind students to keep lender informed
• Review loan terms and conditions
• Review student rights and responsibilities
• Review available repayment options
• Review deferment, forbearance, and cancellation conditions
• Review consequences of delinquency and default
• Loan repayment required even if program is not completed or doesn't meet borrower's expectations
• Counsel on personal financial planning
EXIT
• Review loan repayment obligations
• Provide data on average anticipated monthly repayment
• Provide information on debt management strategies
• Provide name and address of borrower's lender
• Obtain borrower's expected permanent address, expected employer's name and address, address of next of kin
• Verify school record of borrower's name, address, SSN, references, driver's license number

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section 10 Default Reduction Measures

The U.S. Department of Education issued comprehensive default reduction regulations on June 5, 1989, as part of a major effort to reduce the default rate of Federal Stafford Loan and Federal Supplemental Loans for Students (SLS) borrowers. The regulations are found in the General Provisions regulations (Part 668) and in the Federal Family Education Loan Program (FFEL) Program regulations (Part 682). Schools with high FFEL Program cohort default rates are a major focus of the default reduction regulations and of subsequent legislation focusing on the problem of defaulted loans. These actions by law and regulation require schools to provide students with additional loan counseling and to take specific steps to reduce loan defaults.

Questions about the default reduction initiatives that are not answered in this chapter may be directed to

U.S. Department of Education
Default Management Division
Portals Building, Room 6300
600 Independence Avenue, SW
Washington, DC 20202-5353

Phone: 202/708-9396 or 202/708-6048

LOANS INCLUDED IN A SCHOOL'S COHORT DEFAULT RATES

Most default reduction measures are based on a school's cohort default rate for a given fiscal year. The fiscal year (FY) for the federal government is October 1 through September 30. Thus FY 1998 is the period October 1, 1997 through September 30, 1998.

In past years, the data used to calculate cohort default rates included only FFELs. Beginning with the calculation of FY 1995 cohort default rates, however, loans borrowed under the William D. Ford Federal Direct Loan Program (Direct Loans) have also been included.

Subsidized and unsubsidized Stafford Loans, subsidized and unsubsidized Direct Loans, and Federal Supplemental Loans for Students (SLS) are included in a school's cohort default rate calculation.

Federal PLUS Loans and Direct PLUS Loans are not included in calculating a school's cohort default rate. For information on how Federal Consolidation Loans and Direct Consolidation Loans are counted in cohort default rates, see the *FY 1995 Official Cohort Default Rate Guide.*

Loan is considered in repayment

For the purpose of calculating cohort default rates, a Stafford Loan or a Direct Stafford Loan is considered to have entered repayment on the day or month following six months of an uninterrupted initial grace period.

An SLS loan is considered to have entered repayment on the day after a student drops below half-time enrollment. There is once exception: If a student has both an SLS loan and a Stafford Loan that were obtained during t e same enrollment period, the SLS loan is considered to have entered repayment on the same day as the Stafford Loan.

Loan is considered in default

For the purpose of calculating cohort default rates under FFEL, a loan is considered in default on the date that the Department or guaranty agency pays the default claim.

For the purpose of calculating cohort default rates under Direct Loans, a loan is considered to be in default on the 271st day of a borrower's delinquency for all types of schools (public; private nonprofit; proprietary degree-granting schools; and proprietary, non-degree-granting schools). For proprietary, non-degree-granting schools, a Direct Loan is also considered to be in default on the 271st day that a borrower's scheduled payments under the Income Contingent Repayment Plan have been less than $15 per month and less than the monthly interest accruing on the loan.

CALCULATING COHORT DEFAULT RATES

The cohort default rate is the percentage of current and former students who entered repayment on a Federal Stafford (subsidized or unsubsidized) or Federal SLS loan in a given fiscal year and who defaulted before the end of the following fiscal year. The cohort default rate is a combined rate for both Stafford Loans and SLS loans. However, a borrower who enters repayment on more than one of these loans during the fiscal year in question is counted only once in computing the school's default rate for that year.

Schools with 30 or More Borrowers

The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is:

$$\frac{\text{the number of students who both entered repayment in FY A and defaulted by the end of FY B (the following FY)}}{\text{the total number of students who entered repayment in FY A}}$$

The above calculation (for 30 or more borrowers entering repayment) is used for public, private nonprofit, and proprietary degree-granting institutions. For proprietary non-degree-granting institutions, the above calculation is used, but that calculation will also include the number of borrowers who meet all of the following criteria:

34 CFR 668.17 (e)(1)(ii)

- ◊ entered repayment in FY **A and**
- ◊ before the end of FY **B** (the following FY) have been in repayment for 270 days on a Direct Loan under the income-contingent repayment plan with scheduled payments that are less than $15 per month **and**
- ◊ those payments result in negative amortization.

(The same alternative can be used for proprietary non-degree-granting institutions for any fiscal year in which **fewer** than 30 students enter repayment.)

The following is an example of how the cohort default rate for a school with 30 or more borrowers in repayment is determined:

> In FY 1995, 80 current and former SLS loan and/or Stafford Loan borrowers at Sturdy Community College entered repayment on their loans. By the end of FY 1996, 20 of those students, or one fourth, had defaulted. Thus, the school's FY 1995 cohort default rate is 25%.

Schools with Fewer than 30 Borrowers

For a school with fewer than 30 students entering repayment during the fiscal year, the percentage of current and former students who entered repayment on Stafford Loans or SLS loans in **any** of the three most recent fiscal years and who defaulted before the end of the following fiscal year

Average cohort default rate

will be used as that school's cohort default rate. This means that the number of students who enter repayment in any (or all) of the three most recent fiscal years (in this case, FY 1993, FY 1994, and FY 1995) are added together, and the number of students who default before the end of the following fiscal year in any of those years will be added together. Then, as with the cohort default rate for schools with 30 or more borrowers, the number of students in default divided by the number who entered repayment times 100% results in a percentage of students in default—which is the official cohort default rate for the school.

Previously, the default rate for each of the three most recent fiscal years was averaged to arrive at the official cohort default rate. **Note that average cohort rates calculated under that formula (for fiscal years prior to FY 1991) are not recalculated under the new formula.** More information on calculating cohort default rates for schools with fewer than 30 borrowers is included in the *FY 1995 Official Cohort Default Rate Guide* accompanying each school's official cohort default rate notification letter.

Following is an illustration of how the calculation for a school with fewer than 30 borrowers is made:

> Chehak Institute had 15 borrowers who entered repayment in FY 1993; of those 15, 10 defaulted by the end of FY 1994. The school had 25 borrowers entering repayment in FY 1994; of those 25, 5 defaulted by the end of FY 1995. Chehak then had 20 borrowers entering repayment in FY 1995; of those 20, 5 defaulted by the end of FY 1996. Chehak's FY 1995 cohort default rate is calculated as follows:
>
> | FY 1993 | | FY 1994 | | FY 1995 | | |
> |---|---|---|---|---|---|---|
> | 10 | + | 5 | + | 5 | = | 20 |
> | 15 | + | 25 | + | 20 | = | 60 |
>
> Thus, Chehak's FY 1995 default rate is 20 ÷ 60 x 100% = 33.3%.

Dual-program cohort rate—34CFR Section 668.17

Schools in Both FFEL and Direct Loans

If a school makes both FFELs and Direct Loans, the Department will calculate a rate that includes both types of loans, if applicable. Because a school's FY 1995 cohort default rate is based on the loans that entered repayment during FY 1995, a school that participates in both programs might have an FY 1995 cohort default rate based on only one program.

The Department now calculates the following types of rates:

- ◊ FFEL cohort default rate
- ◊ Direct Loans cohort rate
- ◊ dual-program cohort rate (also known as weighted-average cohort rate

> Tarlek College participates in both FFEL and Direct Loans. Seventy-three former students who received FFELs through the school entered repayment between October 1, 1994 and September 30, 1995, but no Direct Loan borrowers from the school entered repayment during that period. Tarlek College's FY 1995 cohort default rate is based on the 73 borrowers who entered repayment during FY 1995. Thus, the school's FY 1995 cohort default rate is based only on FFELs. If borrowers from both programs through Tarlek College had entered repayment during FY 1995, the school's cohort default rate would be based on both FFELs and Direct Loans.

A borrower may enter repayment on both a FFEL and a Direct Loan in a given fiscal year. In this situation, the school's weighted-average cohort rate is determined by comparing the number of both FFEL and Direct Loan borrowers who enter repayment in a fiscal year against those borrowers who default before the end of the following fiscal year. Each borrower and each default is counted only once—even if a borrower has both FFELs and Direct Loans entering repayment in a given fiscal year.

Unduplicated borrower count

CHANGES OCCURRING AFTER AN OFFICIAL COHORT DEFAULT RATE CALCULATION

A cohort default rate is like a snapshot of the time period affected. Changes that occur after the data for a particular cohort default rate are collected will not affect that default rate calculation. To illustrate, let's look at Sturdy Community College's FY 1995 cohort default rate. Those students who enter repayment in FY 1995 and default before the end of FY 1996 are counted in Sturdy's FY 1995 cohort default rate. On the following page are examples of three students who attended Sturdy and who subsequently defaulted.

Jan defaulted in July 1996 but made satisfactory arrangements to repay her loan and began payments under those arrangements in December 1996. For purposes of calculating Sturdy's FY 1995 cohort default rate, Jan continues to be counted as in default.

Don entered repayment in October 1994 and subsequently defaulted in May 1996. However, he won $10,000 in a lottery in November 1996 and promptly repaid his loan in full. Nevertheless, Don will continue to be counted as in default in Sturdy's FY 1995 cohort default rate calculation.

Jay made payments on a loan that entered repayment in FY 1995. However, in the spring of 1996 Jay lost his job and, failing to apply for a deferment, defaulted on his loan in November 1996. Because Jay's default occurred after the FY 1995 cohort default rate calculation period ended (after September 30, 1996), his loan was reported as being in repayment only. Jay's loan is not counted as a default in any fiscal year's cohort default rate calculation.

DRAFT COHORT DEFAULT RATES

The Department calculates draft cohort default rates before it calculates and publishes **official** school cohort default rates. The Department's calculating draft rates gives schools a reasonable opportunity to review and correct errors in the repayment and default information that guaranty agencies must provide to the Department for the purpose of calculating a schools' cohort default rates.

The Department issued regulations published April 29, 1994 and November 29, 1994 governing the draft cohort default rate review process. Further information on the draft default rate review process is provided to schools in a booklet titled *FY 1995 Draft Cohort Default Rate Review Guide*, which is mailed to schools with their draft default rate notification letters.

Review and correction

Each school participating in the FFEL Program has the opportunity to review and correct draft cohort default rate data before official cohort default rates are calculated. (The Department is providing the same opportunity to schools participating in Direct Loans.)

School finds inconsistencies

If a school finds inconsistencies between its records and the draft data, it must submit a challenge to the relevant guaranty agency or Direct Loan Servicing Center within 30 calendar days of receiving the data. If the guaranty agency or Direct Loan Servicing Center agrees with the school's allegations of error, the agency will submit data corrections to the

National Student Loan Data System (NSLDS). If these changes are not reflected in the school's official backup data, the school may request that the Department adjust its official cohort default rate. The school must send its adjustment request within ten working days after it receives its official cohort default rate. See the *FY 1995 Official Cohort Default Rate Guide* for more information on adjustment requests.

Adjustment requests

A school that does not challenge the data during the draft data review process may not challenge that same data at any other time.

The Department will not release draft cohort default rate information to the public, nor will it use draft cohort default rates to determine a school's program eligibility or to assess penalties. For additional information on the draft data review process, see the *FY 1995 Draft Cohort Default Rate Review Guide*.

CHANGE IN STATUS OF A SCHOOL

Default reduction measures apply to **all** divisions and locations of a school. If a school changes its status (by branching, consolidating, or changing ownership, for example) the Department will track and impose appropriate consequences for cohort default rates for fiscal years both before and after the change in status.

If a location becomes a free-standing school:

A school that is a location of a proprietary vocational or vocational postsecondary school and that is seeking institutional eligibility in its own right, is required to operate independently from its former "parent" school for at least two years before it is eligible to participate in SFA Programs.

If a school changes ownership:

If the new owner applies for eligibility to participate in the SFA Programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in SFA Programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA Program or may be granted provisional certification on the basis of current cohort default rates.

The Department is required by law to use procedures that prevent a school from evading the application of a cohort default rate determination through such measures as branching, consolidation, change of ownership

or control, or other similar device. Specific information on how cohort default rates for prior fiscal years are used for eligibility determinations following a change in status for a school was not available at the time this Handbook went to print. The Department will issue further guidance on this topic in the form of Dear Colleague Letters. When issued, this up-to-date information will also be available on the SFA BBS.

Financial aid administrators with any questions regarding their schools' official cohort default rates should contact the Default Management Division at the address and phone numbers listed at the beginning of this section. Questions regarding a school's change in ownership should be directed to the Initial Participation Branch of the Department at 202/260-3270.

CONSEQUENCES ASSOCIATED WITH HIGH OFFICIAL COHORT DEFAULT RATES

In the past, if a school's cohort default rate exceeded 20%, the school was required to implement a default management plan to reduce its rate of borrower default. The school had to provide a proposed default management plan to the Department and the guaranty agency that guaranteed the largest volume of loans to its borrowers. The school was required to either adopt its own plan or notify the Department that it adopted Appendix D of Part 668 of the General Provisions regulations. However, effective July 1, 1996, a default management plan is no longer required.

Schools with cohort default rates of 20% to 24.9% are not subject to sanctions and may be eligible to appeal their cohort default rates only based on the grounds of improper loan servicing and collection. This type of appeal is described on page 10-103. For all types of appeals, strict appeal time frames and standards must be met. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1995 Official Cohort Default Rate Guide*. Regulatory provisions on appeal procedures and time frames are stated in the December 1, 1995 Student Assistance General Provisions Final Rule.

Cohort Default Rates of 25% or Greater for FY 1993, FY 1994, and FY 1995

If a school's cohort default rates are 25% or greater for the three most recent fiscal years for which data are available, the school loses its eligibility to participate in the FFEL Program 30 calendar days after the date the institution receives notification from the Department of this rate.

Please note that a school can lose its eligibility for the Direct Loan Program based on FFEL cohort default rates. A school subject to loss of

FFEL or Direct Loans eligibility may be eligible to appeal this action; the appeal process is described on pages 10-102 through 10-105. Loss of eligibility remains in effect for the remainder of the fiscal year in which the school was notified of the loss plus the following two fiscal years. Thus, if the Department notified a school that it lost eligibility in FY 1998, the earliest it could reapply for eligibility to participate in the FFEL or Direct Loan Program is October 1, 2000, the first day of FY 2001. A school that loses eligibility must immediately inform all current and potential students of its ineligibility and must make clear to students that they cannot receive FFELs or Direct Loans for attendance at the school. Students attending the school remain eligible for in-school deferments.

Loss of program eligibility

Exemptions

Please note that historically black colleges and universities (HBCUs), tribally controlled community colleges, and Navajo community colleges are not subject to loss of FFEL Program eligibility due to default rates greater than 25% for the three most recent fiscal years for which data are available. This exemption has been extended to July 1, 1998.

If a school loses FFEL Program eligibility, any FFEL proceeds disbursed to the school but not delivered to a borrower (or credited to the student's account) must be returned to the lender immediately. If a school loses its eligibility during a payment period but continues to provide instruction to students enrolled in its formerly eligible program, a student who, at the time of the school's loss of eligibility, has received a first disbursement of a Stafford Loan may receive the second (or subsequent) disbursement, as long as he or she is otherwise eligible. This provision assumes that the school remains open during the period of enrollment for which the loan was made.

Appeal rights

Schools in this category may be eligible to appeal based on any of the three types of appeals described on pages 10-102 to 10-105 (erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances) in order to remain eligible to participate in the FFEL Program and/or Direct Loans. Strict appeal time frames and standards must be met, as explained on those pages. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1995 Official Cohort Default Rate Guide*. If a school is in this default rate category, the school's financial aid administrator should read both of these documents carefully; they will provide additional information about what steps a school in this category should take. The school must retain the default rate notification letter for program review and audit purposes.

Cohort default rates that exceed 40%

Limitation, suspension, or termination (LS&T) is possible if a school has a cohort default rate over 40% for FY 1995. LS&T action affects a school's

participation in **all** SFA programs. An LS&T action will not be initiated if the institution can prove that the cohort default rate is not final and that the correct rate would be less than 40%.

APPEAL PROCEDURES

The right to appeal and the type of appeal that a school may submit varies depending upon the school's default-rate category. The school will remain eligible to participate in the FFEL and/or Direct Loan Programs during the appeals process. It is critical for schools to follow the appeal time frames and standards set forth in the December 1, 1995 Student Assistance General Provisions Final Rule and the *FY 1995 Official Cohort Default Rate Guide*. If the school does not correctly follow these procedures and time lines, the appeal will not be reviewed. The Department's appeal decisions are final.

As indicated previously, schools with official cohort default rates of 20% or greater that are not subject to sanctions may appeal only on the grounds of improper loan servicing and collection.

Schools subject to loss of FFEL and/or Direct Loan Program eligibility (those schools with cohort default rates of 25% or greater for the three most recent fiscal years) may appeal based on any of these three circumstances: erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances.

For further details concerning appeal procedures, please refer to the *FY 1995 Official Cohort Default Rate Guide*.

◊ **Erroneous data**

A school may appeal by challenging the accuracy of the default rates if it believes that a recalculation of the data would produce a rate less than 25% for any of the three relevant fiscal years.

Erroneous data appeal process

The school must submit its written request for verification of error to the appropriate guaranty agency (or agencies) within 10 working days of the date the school receives its default rate notification letter. The school must provide a copy of the request to the Secretary at the same time it submits the request to the guaranty agency (or agencies). The guaranty agency (or agencies) must respond within 15 working days. The school must submit its erroneous data appeal to the Department within five working days of receiving the final response from the guaranty agency (or agencies).

◊ **Improper loan servicing and collection:**

A school may be eligible to appeal its cohort default rate and loss of eligibility, if applicable, based on allegations of improper loan servicing and collection. The Department has developed regulations governing procedures for this type of appeal. These regulations were published as a Student Assistance General Provisions Final Rule on November 29, 1994.

An institution's allegation that a lender or servicer did not conduct its loan servicing and collection responsibilities properly will be considered if

- the borrower did not make a payment on the loan **and**
- if the institution can show that the lender or servicer failed to perform one or more of the four activities listed below.

These four activities include

34 CFR 668.17(h)(viii)

- sending at least one letter, other than the final demand letter, urging the borrower or endorser to make payments on the loan;
- making at least one attempt to reach the borrower or endorser by phone;
- requesting preclaims assistance from the guaranty agency, if required; and
- sending the final demand letter.

Improper loan servicing and collection appeal procedures

To begin the appeal process, a school must submit copies of the relevant backup data to the appropriate guaranty agency (or agencies) and request loan servicing records within 10 working days after the date the school receives the Department's notification. The school must send a courtesy copy of every request for loan servicing records to the Department. The school will then receive a sample of loan servicing and collection records from the guaranty agency (or agencies). If the school is subject to loss of FFEL and/or Direct Loans eligibility, the guaranty agency (or agencies) must respond to the school's request for the sample records within 15 working days. Otherwise, the guaranty agency (or agencies) must respond to the school within 30 working days. After receiving this information from the guaranty agency (or agencies), the school has 30 calendar days to file its appeal with the Department.

◊ **Exceptional mitigating circumstances:**

A school may appeal under one exceptional mitigating circumstance. There are different mitigating circumstances appeal standards for degree-granting schools and non-degree-granting schools. A school must send its mitigating circumstances appeal to the Department within 30 calendar days of receiving notification of its loss of eligibility.

The appeal must include a statement from an independent auditor verifying that the information provided in the appeal is complete and accurate. The school or independent auditor must send this opinion to the Department within 60 calendar days following the school's receipt of notification of its loss of eligibility.

For more information on exceptional mitigating circumstances appeals, see the *FY 1995 Official Cohort Default Rate Guide* .

The exceptional mitigating circumstances are:

- The school is serving students from disadvantaged economic backgrounds **and** meets the required completion or placement rate. The school must meet the following requirements:

Economically disadvantaged and completion rates criteria

  Δ at least 70% of its students enrolled at least half time are from disadvantaged economic backgrounds, for a 12-month period that has ended during the 6 months immediately preceding the fiscal year "for which the cohort of borrowers used to calculate the institution's rate is determined;"

  Note that "disadvantaged" is defined as an Expected Family Contribution (EFC) of 0 for the award year coinciding with the same 12-month period just described, or is defined as an adjusted gross income (AGI) of the student and the student's parents or spouse, if applicable, that is less than the poverty level as determined by the U.S. Department of Health and Human Services.

  Δ at least 70% of a degree-granting school's students who were initially enrolled as full time and who were scheduled to complete their programs within the same 12-month period described previously, do complete their programs, transfer to higher level educational programs, or remain enrolled and are making satisfactory academic progress at the end of the 12-month period; or

Δ a non-degree-granting school had a placement rate of 50% or more with respect to its former regular students who remained in the program beyond the point the students would have received a 100% tuition refund from the institution. This rate is based on the number of students initially enrolled at least half time who were scheduled to complete their program within the same 12-month period the school has chosen to determine the percentage of students that come from disadvantaged economic backgrounds.

Economically disadvantaged and placement rates criteria

- The other mitigating circumstance serving as a grounds for appeal is that the school has a participation rate index of 0.0375 or less. This index is determined by multiplying the school's FFEL Program cohort default rate, Direct Loan Program cohort rate or weighted average cohort rate by the percentage of the school's regular students, as defined in 34 CFR 600.2, enrolled on at least a half-time basis who received a loan made under either the FFEL Program or the Direct Loan Program for a 12-month period that has ended during the six months immediately preceding the fiscal year for which the cohort of borrowers used to calculate the school's rate is determined.

  Institutions with cohort default rates above 40% may not appeal loss of eligibility on this basis.

Participation rate index

All three types of appeals must be sent to the Default Management Division at the address listed on page 10-93. Questions concerning a school's cohort default rate and its consequences should be directed to the Default Management Division at the address and telephone number listed on that page.

The Department issues a decision on an institution's appeal within 45 calendar days after submission of the complete appeal. The appeal determination is final. The Department's regulations do not provide for further administrative review.

The appeal decision is final

GENERAL REQUIREMENTS TO REDUCE DEFAULT

The following requirements are applicable to all schools:

◊ **All** schools (except foreign schools) wishing to participate in the FFEL Program must develop a default-management plan for the Department's approval as part of the initial application for participation; all schools must implement the plan for two years after they become eligible. Recertification will be required of all

schools every five years; a default-management plan is a requirement of the Program Participation Agreement for schools wishing to participate in FFEL Programs.

◊ A school that admits students who do not have a high school diplomas or their equivalents must make available to those students a General Education Development (GED) program. The school does not have to develop its own GED program or pay students' tuition for such a program, but the school must be sure that a GED program is available nearby and must inform students of GED program availability. This requirement applies to all SFA programs except State Student Incentive Grant (SSIG) and Byrd Scholarship programs. See Chapter 3 for more details on GED requirements.

Disbursement requirements

◊ For Stafford Loans and PLUS Loans, proceeds must be disbursed in two or more installments, regardless of the amount of the loan or the length of the enrollment period for which the loan is made. No disbursement may exceed half of the loan amount. See Section 3 of this chapter for more on this requirement.

◊ Late disbursements of Stafford and PLUS Loans are subject to certain restrictions. See Section 3, for more information.

◊ A Stafford Loan borrower who is entering the first year of an undergraduate program—and who has not previously received a Stafford Loan—may not receive the first installment of loan proceeds until 30 days after the first day of the program of study.

If the first-time undergraduate borrower's FFEL loan is disbursed by EFT or by master check, a school may not request the disbursement of the borrower's loan proceeds until the 24th day of the student's period of enrollment.

◊ A school is required to provide to the appropriate lender—on behalf of each student borrower—a disbursement schedule that meets Stafford Loan and PLUS Loan disbursement requirements. See Section 3.

◊ Each school participating in SFA Programs is required to have a fair and equitable refund policy.

Unless a school's refund policy is more stringent, the school must at least provide students with pro rata refunds if the students are attending the school for the first time and do not complete 60% of the period of enrollment for which the students have been charged. Pro rata refund calculations are explained in Chapter 3.

11 Additional School Requirements

REFUNDS

Chapter 3 provides a general discussion of refunds and refund policies. Only information specific to the Federal Family Education Loan (FFEL) Program is provided here. Note that the refund policy information in Chapter 3, of course, extends to a parent who receive a Federal PLUS Loan on behalf of a dependent student who does not enroll for the academic period for which the loan was intended or who does not complete the academic period for which the loan was made.

Refund to student via lender

In the case where a school makes a refund to a student via the lender, the school must make the refund within 60 days after the student's official withdrawal date. If a student drops out, the school must pay the refund within 60 days of the earliest date of the following three dates:

1) the date the student dropped out according to the school

2) the last day of the academic term in which the student withdrew

3) the last day of the period of enrollment for which the student has been charged

Student doesn't return from leave of absence

Concerning the refund policy for a student who does not return to school following an approved leave of absence, any refund due must be paid within 30 days of whichever of the following dates is earlier:

1) the expiration of the leave of absence

2) the student's date of notification that he or she will not be returning to the institution after the leave of absence expires

If the student was on an unapproved leave of absence, the refund must be made within 60 days of the student's last recorded date of class attendance.

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All refunds must be sent directly to the lender—they must not be given to the student or parent.

When a school makes a refund to a lender, the school must notify the student in writing and—if the borrower is the student's parent—the school must also notify the parent.

EXCHANGE OF INFORMATION REQUIREMENTS

A school is required to inform a lender or guaranty agency within 30 days of discovery of any change in a Stafford Loan borrower's permanent address. The school also must (on request) provide a lender or guaranty agency with the borrower's name, address, and if possible, the employer and employer address. Within 60 days after the exit interview, the school must provide the guaranty agency that was listed in the borrower's student aid records with updated information about

- ◊ the borrower's future permanent address,
- ◊ the borrower's Social Security Number,
- ◊ the identity and address of the borrower's expected employer,
- ◊ the address of the borrower's next of kin, and
- ◊ the borrower's driver's license number.

To promote loan repayment, a school may make agreements to provide the holders of delinquent loans of current or former students with information about the delinquent borrower's location or employment. The school may also try to contact the borrower and counsel him or her to avoid default.

A lender must provide a school with the name and Social Security Number of the student for whom a parent is borrowing a PLUS Loan. If a lender has requested preclaims assistance from a guaranty agency, the guaranty agency (rather than the lender) must provide the school at which the borrower obtained a loan with the borrower's name, address, and Social Security Number. The guaranty agency may charge the school a reasonable fee for the service. The school may only use the information to remind the borrower to repay his or her loan(s).

At the request of a school, a guaranty agency must provide, without charge, information about students enrolled at the school if such students are in default on FFELs. The guaranty agency must also provide the school, on request, with the notice of sale, transfer, or assignment of the loan to another holder, as well as the address and telephone number of the

new loan holder. This requirement must be met prior to the beginning of the loan repayment period but only applies if a borrower is in the grace period or is in repayment.

RECORDKEEPING, AUDITS, AND REPORTS

Record retention and examination requirements have been standardized for all SFA programs and are set forth in the November 27, 1996 Student Assistance General Provisions Final Rule. Chapter 3 provides detailed information on these subjects. Included here is FFEL-specific information.

A school must keep records relating to a student or parent borrower's eligibility and participation in the FEEL Program for three years after the end of the award year in which the student last attended the institution. A school must keep all other records relating to the school's participation in the FFEL Program for three years after the end of the award year in which the records are submitted.

The following lists some examples of the types of student loan records that a school must maintain:

- ◊ the name of the borrower and a copy of the loan application (if the borrower is a parent, the name of the student on whose behalf the PLUS Loan was made); ***Loan application***
- ◊ the *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR) used to determine the borrower's eligibility for SFA funds; ***SAR***
- ◊ the amount of the loan, its payment period, its loan period, (if appropriate), the calculations used to determine the loan amount, and the date and amount of each loan disbursement; ***Loan details***
- ◊ the name and address of the lender;
- ◊ financial assistance that was available to the student and used in determining estimated financial assistance (EFA) for the loan period; ***EFA***
- ◊ the data used to construct an individual student's budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance (COA); ***Data used for COA***
- ◊ the amount of a student's tuition and fees for the loan period, the date the student paid the tuition and fees, and the date the loan check was received and delivered to the student; ***Student's school account information***

Refund calculation

- ◊ the amount and basis for calculation of any refund paid to or on behalf of the student; and

Data used to determine EFC

- ◊ for subsidized Stafford Loans, the data used to determine the student's EFC.
- ◊ the date the school endorsed the loan check;
- ◊ the date(s) of transmittal of loan proceeds to the student;
- ◊ documentation of the student's Federal Pell Grant eligibility or ineligibility (for Stafford Loan borrowers and PLUS Loans with late disbursements).

Format of records

A school may keep these required records in hard copy or in microform, computer files, optical disk, CD-ROM, or other media formats. All record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department.

School that is lender

If a school is a lender and the holder of a promissory note, the school must also retain the original note. Every two years, an independent certified public accountant must audit the school; the audit must cover the period of time since the previous audit. A school must agree to allow the Department or a guaranty agency to audit the school's records periodically to verify compliance with SFA regulations.

SSCRs

A *Student Status Confirmation Report* (SSCR) is a reflection of a school's FFEL borrower data. If these reports are not reconciled and reflect inaccurate data, borrowers will not be converted to their grace and repayment periods properly, and the school's cohort default rate will likely be inaccurate. The school is responsible for completing SSCRs.

SSCRs and NSLDS

The Department has incorporated SSCRs into the National Student Loan Data System (NSLDS) in order to centralize and fully automate the enrollment verification process. In April 1996, all schools should have received an electronic SSCR file from NSLDS via the Title IV Wide Area Network (TIV WAN). This file contains enrollment information on FFEL Program and Federal Direct Loan Program borrowers that the Department believes are currently attending each school or who have recently left each school.

Since NSLDS is taking over the SSCR process, guaranty agencies will no longer send SSCRs to schools that have successfully completed their practice rosters; the agencies now receive enrollment verification directly from NSLDS. For further information on NSLDS, please consult Dear Colleague Letter GEN-96-13 (July 1996).

A school that is fully operational in reporting SSCR data to the NSLDS are exempt from the requirement to provide SSCRs directly to guaranty agencies. However, the school must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. The school must continue to provide loan holders and loan servicers with a borrower's enrollment status or enrollment history for deferment and other repayment purposes and with information needed to locate a borrower. This information includes last known address, change in surname, and employer's name and address.

A student authorizes his or her school to release information to lenders by signing a statement as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow. Examples of such information are enrollment status, financial assistance, and employment records.

AUDIT REQUIREMENTS

Default rate above 20%

A school with a default rate above 20% is required to undergo a biennial on-site guaranty agency review of its FFEL Programs, unless the school is operating under an approved default management plan or unless the school's default rate is based on loans entering repayment totalling less than $100,000 in a given year.

More information is provided in the *Audit Guide: Audits of Student Financial Assistance Programs*. Compliance audits must be conducted by an independent auditor in accordance with the U.S. General Accounting Office's (GAO's) Government Accounting Standards. The *Audit Guide* sets forth general accounting standards and the standards specifically for compliance audits.

These are some of the FFEL-specific requirements that are subject to audit:

- ◊ A school must determine student eligibility. In the case of a PLUS Loan, the financial aid administrator must also determine whether the parent is eligible to borrow on behalf of an eligible dependent student. Auditing of the determination of Pell Grant eligibility for undergraduate Stafford Loan borrowers is also required.

- ◊ A school must complete portions of the loan application regarding student eligibility, the student's estimated COA, the student's EFA, and, if applicable, the EFC. The school also must meet the loan certification and other requirements of 34 CFR 682.603.

- ◊ A school must follow prescribed procedures in the FFEL Program regulations (34 CFR 682.604) for handling loan proceeds. These procedures vary depending on whether the student does or does not enroll and on whether the proceeds are payable to the student only or jointly to the student and to the school.

- ◊ When a school becomes aware that: (1) a student with a deferment no longer meets the conditions for an in-school deferment, (2) a student who received a loan or for whom a PLUS Loan was received failed to enroll at least half time for the period for which the loan was intended or was otherwise ineligible for the loan, or (3) a student's permanent address has changed, such information must immediately be reported to the lender or the guaranty agency.

- ◊ A school must establish adequate entrance and exit counseling procedures.

PROGRAM PARTICIPATION AGREEMENT REQUIREMENTS

Chapter 3 provides detailed information on the Program Participation Agreement (PPA). Provided here is FFEL-specific information about the PPA. A school's PPA requires that

- ◊ a school beginning participation in the FFEL Program after a change of ownership or a change in the school's status must develop a Default Management Plan for approval by the Department and must maintain the plan for two years after certification;

- ◊ if a student is unable to pay costs of attendance owed a school because of a delay in delivery of FFEL proceeds and the delay is the fault of the school or is a result of adhering to SFA Program requirements, the school may not penalize the student;

- ◊ a school provide students with recent data on employment and graduation statistics when advertising job-placement rates to recruit students;

- ◊ a school inform enrolled eligible borrowers of the availability of state grant assistance from the state in which the school is located, and provide a source of information for programs in the home state of the eligible borrower; and

- ◊ a school certify the availability of a drug abuse prevention program for officers, employees, and students of the school.

The PPA (as well as program regulations) also prohibits schools from charging students fees for processing applications or data required to determine eligibility for SFA Programs or for processing FFEL Program deferment forms and prohibits the certification of loans in excess of the student's eligibility.

PROHIBITED SCHOOL AND LENDER ACTIVITY

An eligible school may not employ or use commissioned salespersons to promote the availability of loans. A commissioned salesperson is any person who receives compensation that is related to, or calculated on the basis of, student applications, enrollments, or acceptances. "Promote the availability" means providing prospective or enrolled students with applications, names of lenders, or other information designed to encourage students to apply for FFELs. This term does not prohibit a commissioned salesperson from providing prospective or enrolled students with general financial aid information. However, the Higher Education Act of 1965 (HEA), as amended, prohibits any commission, bonus, or other incentive payments based on an employee's success in securing enrollment, admissions, or the awarding of student aid. (This prohibition does not apply to the recruitment of foreign students who are not eligible for SFA funds.)

Similarly, guaranty agencies and lenders are prohibited by law from offering inducements (such as points, premiums, or payments) to schools or individuals as a means to market loans. Lenders and guaranty agencies are also forbidden to mail unsolicited loan application forms to a student, unless the student has previously obtained a student loan from that lender or agency.

A school may not make payments to induce lenders to make loans to students (or to the parents of students) at that school. In addition, a school may not ask for scholarships or other forms of financial support from a lender in exchange for an exclusive marketing opportunity or loan referrals from the school. Examples of prohibited inducements are provided in 34 CFR 682.212(b) and 682.401(e)(2)(i).

A March 1995 Dear Colleague Letter (95-G-278) provided further guidance on prohibited inducements by lenders as a result of special arrangements with schools and on limitations on lending by schools.

Appendix:

Guaranty Agency Directory

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GUARANTY AGENCIES

ALABAMA
Kentucky Higher Education Assistance Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323

502/564-7990
800/928-8926

ALASKA (FEDERAL LOANS)
USA Funds, Inc.
P.O. Box 6180
Indianapolis, IN 46206-6180

317/849-6510
800/382-4506
800/428-9250

ALASKA (STATE LOANS)
Alaska Commission on Postsecondary Education
Alaska Student Loan Corporation
3030 Vintage Boulevard
Juneau, Alaska 99801-7109

907/465-2962

ARIZONA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

ARKANSAS
Student Loan Guarantee Foundation of Arkansas
219 South Victory Street
Little Rock, Arkansas 72201-1884

501/372-1491
800/622-3446

CALIFORNIA
California Student Aid Commission
P.O. Box 510845
Sacramento, California 94245-0845

916/445-0880
800/367-1589 (defaulted loans)
916/322-9277 (billing problems)

COLORADO
Colorado Student Loan Program
Suite 425
999 18th Street
Denver, Colorado 80202-2471

303/294-5050
800/727-9834

CONNECTICUT
Connecticut Student Loan Foundation
P.O. Box 1009
Rocky Hill, Connecticut 06067

860/257-4001
800/237-9721
800/345-6055

DELAWARE
Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, PA 17102-1444

717/720-2850
800/692-7392

DISTRICT OF COLUMBIA
American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292

617/426-9434
800/999-9080

FLORIDA

Florida Department of Education
Office of Student Financial Assistance
325 West Gaines Street
Collins Building, Room 255
Tallahassee, Florida 32399-0400

904/488-4095
800/366-3475

GEORGIA

Georgia Higher Education Assistance Corporation
Suite 200
2082 East Exchange Place
Tucker, Georgia 30084

770/414-3000
800/776-6878

HAWAII

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

IDAHO

Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

206/461-5300
800/562-3001

ILLINOIS

Illinois Student Assistance Commission
1755 Lake Cook Road
Deerfield, Illinois 60015

847/948-8500
800/477-4411
800/934-3572 (defaulted loans)

INDIANA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250

IOWA

Iowa College Student Aid Commission
200 10th St., 4th floor
Des Moines, Iowa 50309-3609

515/281-3501
800/383-4222

KANSAS

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250

KENTUCKY

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323

502/564-7990
800/928-8926

LOUISIANA

Louisiana Office of Student Financial Assistance
P.O. Box 91202
Baton Rouge, Louisiana 70821-9202

504/922-1012
800/259-5626

MAINE
Finance Authority of Maine
1 Weston Court
State House Station 119
Augusta, Maine 04333
207/626-8200
800/228-3734 (in Maine)

MARYLAND
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250

MASSACHUSETTS
American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292
617/426-9434
800/999-9080

MICHIGAN
Michigan Higher Education Assistance Authority
P.O. Box 30047
Lansing, Michigan 48909
517/373-0760
800/642-5626

MINNESOTA
Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

MISSISSIPPI
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250

MISSOURI
Coordinating Board for Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109-5717
573/751-2361
800/473-6757 (in Missouri)

MONTANA
Montana Guaranteed Student Loan Program
P.O. Box 203101
Helena, Montana 59620-3101
406/444-6594
800/537-7508
800/322-3086 (defaulted loans)

NEBRASKA
Nebraska Student Loan Program
P.O. Box 82507
Lincoln, Nebraska 68501-2507
402/475-8686
800/735-8778

NEVADA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

NEW HAMPSHIRE
New Hampshire Higher Education Assistance Foundation
P.O. Box 877
Concord, New Hampshire 03302-0877
603/225-6612
800/525-2577

NEW JERSEY
New Jersey Higher Education Assistance Authority
4 Quakerbridge Plaza CN540
Trenton, New Jersey 08625
609/588-3200
800/356-5562
800/792-8670

NEW MEXICO

New Mexico Student Loan Guarantee Corporation
P.O. Box 27020
Albuquerque, New Mexico 87125-7020

505/345-3371
800/279-3070

NEW YORK

New York State Higher Education Services Corporation
99 Washington Avenue
Albany, New York 12255

518/474-5592
800/642-6234

NORTH CAROLINA

North Carolina State Education Assistance Authority
P.O. Box 2688
Chapel Hill, North Carolina 27515-2688

919/549-8614

NORTH DAKOTA

Student Loans of North Dakota Guarantor
P.O. Box 5524
Bismark, North Dakota 58506-5524

701/328-5763
800/472-2166

OHIO

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707

608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

OKLAHOMA

Oklahoma Guaranteed Student Loan Program
P.O. Box 3000
Oklahoma City, Oklahoma 73101-3000

405/552-4300
800/247-0420

OREGON

Oregon State Scholarship Commission
Suite 100
1500 Valley River Drive
Eugene, Oregon 97401

541/687-7400
800/452-8807

PENNSYLVANIA

Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444

717/720-2850
800/692-7392

RHODE ISLAND

Rhode Island Higher Education Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886-1320

401/736-1100
800/922-9855

SOUTH CAROLINA

South Carolina State Education Assistance Authority
Suite 210
Interstate Center
P.O. Box 210219
Columbia, South Carolina 29221

803/798-0916
800/347-2752

SOUTH DAKOTA

Education Assistance Corporation
115 First Avenue, S.W.
Aberdeen, South Dakota 57401

605/225-6423
800/592-1802

TENNESSEE

Tennessee Student Assistance Corporation
404 James Robertson Parkway
Suite 1950
Parkway Towers
Nashville, Tennessee 37243-0820

615/741-1346
800/342-1663 (in Tennessee)
800/447-1523 (in Tennessee)
800/257-6526 (outside Tennessee)

TEXAS

Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725

512/219-5700
800/252-9743
800/845-6267

UTAH

Utah Higher Education Assistance Authority
P.O. Box 45202
Salt Lake City, Utah 84145-0202

801/321-7200
800/418-8757

VERMONT

Vermont Student Assistance Corporation
P.O. Box 2000
Winooski, Vermont 05404-2601

802/655-9602
800/798-8722
800/642-3177 (in Vermont)

VIRGINIA

Educational Credit Management Corporation
411 East Franklin Street
Suite 300
Richmond, Virginia 23219

804/644-6400

888/775-3262

888/295-1121 (default prevention)

WASHINGTON

Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

206/461-5300
800/562-3001

WEST VIRGINIA

Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444

717/720-2850
800/692-7392

WISCONSIN

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707

608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

WYOMING

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

AMERICAN SAMOA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

NORTHERN MARIANA ISLANDS

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

FEDERATED STATES OF MICRONESIA, MARSHALL ISLANDS, REPUBLIC OF PALAU

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

VIRGIN ISLANDS

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707

608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

GUAM

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

PUERTO RICO

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707

608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

The Federal Student Financial Aid Handbook 1998-99

CHAPTER 7

William D. Ford Federal Direct Loan Program

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CONTENTS

CHAPTER 11

WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

INTRODUCTION **1**
Recent Changes 2

SECTION 1: ELIGIBILITY **5**
Student Borrower Eligibility 5
Parent Borrower Eligibility 8
Eligibility After Bankruptcy Discharge 9
Refusal to Originate a Loan 9
Institutional Eligibility 10
Withdrawing from the Direct Loan Program 12

SECTION 2: DIRECT SUBSIDIZED LOANS, DIRECT UNSUBSIDIZED LOANS, AND DIRECT PLUS LOANS **13**
Credit History 13
Loan Limits 14
Prorated Annual Loan Limits—Direct Subsidized and Unsubsidized Loans 19
Frequency of Annual Loan Limits 22
Interest Rates 25
Additional Borrowing Costs 27
Grace Periods—Direct Subsidized and Unsubsidized Loans 28
Repayment 28
Deferment 34
Forbearance 37
Discharge 39
Department of Defense Repayment 41
Borrower Defenses 41

SECTION 3: DIRECT CONSOLIDATION LOANS **43**
Types of Direct Consolidation Loans 43
Loan Limits 45
Interest Rates 45
Additional Borrowing Costs 46
Eligibility 47
Subsequent Consolidation 52
Repayment 53
Holder Responsibilities 54

SECTION 4: DEFAULT **57**
Default's Effect on Borrowers 57
Default's Effect on Schools 60

SECTION 5: SCHOOL RESPONSIBILITIES **71**
Determining the Loan Period 71
Disbursements 73
Other School Responsibilities 79

Introduction

The William D. Ford Federal Direct Loan Program (also known as the Direct Loan Program and Direct Loans) was authorized under Title IV of the Higher Education Act with passage of the Student Loan Reform Act of 1993. A major source of federal student assistance, the Direct Loan Program provides loans to eligible borrowers to cover postsecondary education costs. The program uses loan capital the federal government provides, requires only one aid application (the *Free Application for Federal Student Aid*), and makes loans available directly through participating schools rather than through private lenders and guaranty agencies.

The following types of loans are available through the Direct Loan Program:

- **Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)** are awarded to students who demonstrate financial need. Because the Department subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during in-school, grace, and deferment periods.

- **Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)** are awarded to students regardless of financial need. Borrowers are responsible for the interest that accrues during any period.

- **Federal Direct PLUS Loans (Direct PLUS Loans)** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with Direct Unsubsidized Loans, borrowers are responsible for the interest that accrues on a Direct PLUS Loan during any period.

- **Federal Direct Consolidation Loans (Direct Consolidation Loans)** allow any borrower to combine one or more federal education loans into a new Direct Loan.

The main participants in the Direct Loan Program are the borrowers (students and parents), the postsecondary schools, and the U.S. Department of Education (the Department). Each participant has a particular role.

- ◊ **Student borrowers** must complete the *Free Application for Federal Student Aid* (FAFSA), sign a completed promissory note, participate in loan counseling, and repay the loan.

- ◊ **Parent borrowers** must complete and sign the required application/promissory note, meet established credit standards, borrow on behalf of an eligible student, and repay the loan.

- ◊ **Postsecondary schools** must meet and maintain specific eligibility criteria, meet and maintain specific criteria to originate loans, and execute a Program Participation Agreement with the Department. Schools must also certify borrower eligibility and disburse loan funds.

- ◊ **The Department** funds, services, and collects loans; provides support services to schools; and oversees the program.

Basic student and institutional eligibility requirements under the Direct Loan Program are consistent with other Student Financial Assistance (SFA) Programs. In addition, there are similarities, as well as important differences, between the Direct Loan Program and the Federal Family Education Loan (FFEL) Program. Chapter 11 focuses primarily on federal requirements and policies specific to Direct Loans. Chapter 2 covers general student eligibility requirements; Chapter 3 discusses general institutional requirements. For a comparison with the FFEL Program, see Chapter 10.

RECENT CHANGES

There have been a few changes for the Direct Loan Program:

- ◊ The separate application for schools wanting to participate in the Direct Loan Program has been eliminated (see page 11-10).

- ◊ The aggregate loan limit has been increased for certain health professions students (see page 11-19).

Other possible changes were under consideration at the time this Handbook went to print. The Department also expects to issue further guidance on some topics.

- ◊ On September 25, 1997, the Department published a Notice of Proposed Rulemaking that would make changes to the Direct Loan Program regulations. These proposed modifications are intended to eliminate certain differences between the FFEL and Direct Loan programs. At the time this Handbook went to print, the Department expected to publish final regulations by December 1, 1997.

- ◊ The interest rate formula for all Direct Loans is scheduled to change for loans first disbursed on or after July 1, 1998 (see pages 11-26 and 11-44).

- ◊ The Department is planning to provide further guidance on the calculation of cohort default rates when a school changes its status (see page 11-65).

Up-to-date information on these and other topics will be available on the SFA BBS.

Section 1 Eligibility

Direct Loan Program borrowers and schools must meet federal eligibility requirements outlined in the law and regulations. Chapters 2 and 3 provide extensive information about those requirements. This section highlights eligibility information for borrowers and schools.

STUDENT BORROWER ELIGIBILITY

Enrollment status

Eligibility for a Direct Subsidized Loan or Direct Unsubsidized Loan requires a student to be enrolled at least half time as a regular student in an eligible program at a school participating in the Direct Loan Program. Students may also obtain Direct Loans while enrolled in a 12-month period of preparatory coursework or in a teacher certification program (see Section 2 for more information).

No FFELs and Direct Loans for same enrollment period

Although a postsecondary school may participate simultaneously in the Direct Loan and Federal Family Education Loan (FFEL) programs, a student may not borrow from both programs for attendance at the same school for the same enrollment period.

Students without high school diplomas or recognized equivalents may still be academically qualified and, thus, eligible for Direct Loans. Such students must demonstrate the ability to benefit from the instruction being offered. See Chapter 2, Section 1 for detailed information on how the student's ability to benefit is determined.

Incarcerated students and students enrolled in elementary or secondary schools are not eligible for Direct Loans.

Federal Pell Grant eligibility

Schools that participate in the Federal Pell Grant Program must determine Pell Grant eligibility before awarding Direct Subsidized and Direct Unsubsidized Loans. In addition, before awarding a Direct Unsubsidized Loan, an aid administrator must first determine whether the student is eligible for a lower-cost Direct Subsidized Loan. Note that in general a school can award a Direct PLUS Loan **without** first determining whether the dependent student for whom the parent is borrowing is eligible for a Pell Grant or Direct Subsidized Loan. However, in order to make a late

disbursement of a Direct PLUS Loan, the school must have a *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR) for the student with an official Expected Family Contribution (EFC).

Financial need

To qualify for a **Direct Subsidized Loan**, a student must have financial need, which is determined by the following formula:

Cost of Attendance (COA)
— Expected Family Contribution (EFC)
— Estimated Financial Aid (EFA)
= Eligibility for Direct Subsidized Loans

The school establishes the COA in compliance with federal guidelines. The EFC is calculated using financial information the student's family provides on the *Free Application for Federal Student Aid* (FAFSA), the only application a student needs to apply for Direct Loans. The EFA includes the amount of the student's Pell Grant eligibility plus other aid the student will actually receive.

Although financial need is not considered when determining the amount of **Direct Unsubsidized Loans** and **Direct PLUS Loans** for which a borrower is eligible, the COA and EFA must be taken into account:

COA
— EFA
= Eligibility for Direct Unsubsidized Loans/Direct PLUS Loans

Proceeds from Direct Unsubsidized Loans and Direct PLUS Loans may be used to replace the EFC for a given loan period. (The same is true for nonfederal loan proceeds.) See Chapter 2, Section 3 for detailed information about how eligibility for the Direct Loan Program (and the other SFA Programs) is determined using the COA, EFC, and EFA.

Promissory note

Students must complete and sign a promissory note before receiving their first Direct Loan disbursement. For more information on promissory notes, see the *Direct Loan School Guide.*

Membership in religious organizations

As explained in Chapter 2, students who are members of certain religious organizations are considered to have no financial need for SFA Program purposes and are therefore ineligible for Direct Subsidized Loans; however, these students may be eligible for Direct Unsubsidized Loans. (Note that the parent of such a student is not precluded from borrowing a Direct PLUS Loan for that student.) For further details, see Chapter 2, Section 1.

Internships/ residencies

A student is **ineligible** to receive a Direct Loan while in a medical internship or residency program. Students in **dental** internship programs are **eligible** to receive Direct Loans.

Eligibility after disability cancellation

A student who has had a Direct Loan canceled due to total and permanent disability may reestablish eligibility for a new loan by (1) obtaining a statement from a physician certifying that the student can engage in substantial gainful activity and (2) signing a statement acknowledging that the new Direct Loan cannot be canceled because of any impairment present when that loan is made, unless the impairment substantially deteriorates.

Default, excess borrowing, and overpayment

Students who are in default on federal student loans, have obtained federal student loan funds in excess of annual or aggregate loan limits, or have received overpayments of SFA funds are not eligible for Direct Loans or any other SFA Program funds. A student in any of these situations can regain eligibility for SFA funds, including Direct Loans, by repaying in full the amount owed or by taking other steps.

- For purposes of regaining Direct Loan eligibility in cases of default, the borrower must make "satisfactory repayment arrangements," defined as six consecutive, voluntary, on time, full monthly payments that are reasonable and affordable given the borrower's financial situation. "On time" means a payment made within 15 days of the scheduled due date. "Voluntary" payments are those the borrower makes directly, regardless of whether a judgment exists. Voluntary payments do not include those obtained by income tax offset, garnishment, or income or asset execution. For the purpose of regaining eligibility, a student may make satisfactory repayment arrangements on a defaulted Direct Loan only once. (See Section 4 for more information on resolving defaults.)

- Students who have inadvertently exceeded loan limits or received overpayments must make repayment arrangements satisfactory to the holder of the loan or the holder of the overpayment debt. Students who exceed Direct Loan limits must contact their Direct Loan Servicing Center to establish repayment arrangements satisfactory to the Department.

Regaining eligibility during enrollment period

If a student regains eligibility during an enrollment period (for example, if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period), the student regains eligibility for the entire loan period.

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Chapter 2, Section 1 discusses in detail overpayment, borrowing in excess of loan limits, and regaining eligibility for SFA Programs. For more information on the consequences of default for borrowers, see page 11-57 of this chapter.

PARENT BORROWER ELIGIBILITY

For purposes of Direct PLUS Loan eligibility, an eligible parent borrower is a student's biological mother or father, adoptive parent, or legal guardian. A parent also includes the spouse of a parent who remarries, if that spouse's income and assets would be taken into account when calculating a dependent student's EFC.

A parent must use the Direct PLUS Loan to pay for the educational expenses of a dependent undergraduate student who meets the requirements for an eligible student (see Chapter 2).

Application/ promissory note

A parent must submit a Direct PLUS Loan application/promissory note to the school or to the Department's Loan Origination Center, depending on the school's origination level. A parent does not have to complete the FAFSA unless the student for whom the parent plans to borrow is applying for other SFA funds—or nonfederal funds—that require the FAFSA. However, note that to make a late disbursement of a Direct PLUS Loan, the school must have a SAR or ISIR for the student with an official EFC. For more information on PLUS application/promissory note procedures, see the *Direct Loan School Guide*.

General eligibility requirements

A parent must meet the same requirements as a student applying for SFA Program funds when it comes to citizenship status, defaults, overpayments, and previous loans canceled due to total and permanent disability. A parent also must comply with the requirements for submitting a Statement of Educational Purpose (see Chapter 2). In addition, the parent must provide his or her Social Security Number and the student's Social Security Number.

A parent is not allowed to borrow a Direct PLUS Loan and a Federal PLUS Loan for the same student for the same enrollment period at the same school.

Adverse credit history

Direct PLUS Loans are not available to a parent with an adverse credit history unless he or she obtains an endorser with no adverse credit history or demonstrates extenuating circumstances. (See Section 2 for more information on credit history requirements.)

ELIGIBILITY AFTER BANKRUPTCY DISCHARGE

To be eligible for SFA Program funds, including Direct Loans, borrowers do not have to reaffirm loan or overpayment obligations discharged in bankruptcy. The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on a bankruptcy discharge. However, a parent borrower who wishes to receive a Direct PLUS Loan within 5 years following a bankruptcy discharge may be required to obtain an endorser or document extenuating circumstances.

A federal student loan or federal grant overpayment is not dischargeable in bankruptcy unless the debt has been outstanding for at least seven years, excluding any periods of deferment or forbearance, or unless the bankruptcy court has determined that repaying the debt would cause undue hardship to the debtor and his or her dependents.

An applicant for SFA funds who has a defaulted federal student loan (or grant overpayment) determined **non**dischargeable in the bankruptcy filing will be considered ineligible for further federal student aid until the default or overpayment status is resolved as discussed on page 11-7. If a default or overpayment occurred before the borrower's bankruptcy filing and the debt was discharged in bankruptcy, the applicant is eligible for further federal student aid. The applicant does not have to establish satisfactory repayment arrangements because the debt no longer exists.

A borrower who listed a dischargeable SFA debt in a bankruptcy filing is also eligible for further federal student aid before the debt is actually discharged. The borrower must provide documentation to the school from the holder of the debt stating that the debt is dischargeable.

REFUSAL TO ORIGINATE A LOAN

A school may refuse to originate any Direct Loan or may originate an amount less than a borrower's calculated need if the school

- ◊ makes such decisions on a case-by-case basis;
- ◊ does not engage in any pattern or practice that results in denying access to Direct Loans because of a borrower's race, gender, color, religion, national origin, age, disability status, or income;
- ◊ documents the reason for the decision and keeps that documentation in the student's file; and
- ◊ notifies the student or parent in writing of the decision.

The Department selects schools to participate in the Direct Loan Program, drawing from colleges, universities, graduate and professional schools, vocational schools, and proprietary schools. To the extent possible, the Department selects schools reasonably representative of those participating in the FFEL Program in terms of anticipated loan volume, length of academic program, type of control, highest degree offered, size of enrollment, geographic location, and default history. At the time this Handbook went to print, the separate *William D. Ford Federal Direct Loan Program Participation Application* had been eliminated. Schools interested in participating should contact the Direct Loan Task Force at (202) 708-9951 for more information.

To participate in the Direct Loan Program, schools must meet the general institutional eligibility definitions and criteria described in Chapter 3. Direct Loan schools also must meet and maintain other requirements, as discussed below.

Correspondence study

A school offering programs **exclusively** for study by correspondence is not eligible to participate in Direct Loans.

Initial participation

To qualify for initial participation in the Direct Loan Program, a school must not be subject to an emergency action or a proposed or final Limitation, Suspension, and Termination action. In addition, a school must meet the eligibility requirements in Section 435(a) of the Higher Education Act, including the requirement that the cohort default rate be less than 25% for at least one of the three most recent fiscal years for which data are available. Note that the cohort default rate requirement is not solely an initial participation requirement. See Section 4 for information on cohort default rate requirements.

Program Participation Agreement

To participate in Direct Loans, a school must sign an addendum to the Department's Program Participation Agreement. The chief executive officer signs the agreement on the school's behalf.

If schools apply as a consortium, each school in the consortium must meet the eligibility requirements described above and must sign a separate Program Participation Agreement.

The signed agreement obligates the school to comply with statutory and regulatory requirements. The agreement allows schools to participate simultaneously in the Direct Loan and FFEL programs; however, as mentioned earlier, individual students may not receive loans under both programs for the same enrollment period at the same school.

The agreement requires schools to identify eligible students, estimate their financial need, and certify that borrowers have not exceeded annual or aggregate loan limits. Schools also must provide timely and accurate information to help the Department service the loans and collect repayments. Such information includes the status of student borrowers—and the status of students for whom parents have borrowed—while these students are still enrolled. In addition, at the Department's request, a school must provide any new information about borrowers obtained after the students leave school.

Other provisions in the agreement require schools to

- ◊ refrain from charging fees of any kind for origination activities or for providing Direct Loan information to student or parent borrowers,
- ◊ implement a quality assurance system, and
- ◊ comply with other provisions the Department determines necessary to protect the interests of the United States and to promote the Direct Loan Program's purposes.

Requirements for Option 1 and Option 2 schools/ consortia

Option 1 or 2 schools or consortia must meet additional criteria:

- ◊ have participated in the Federal Perkins Loan Program or the Federal Pell Grant Program or, for a graduate or professional school, have participated in a similar program for the three most recent years;
- ◊ not be on the reimbursement system of payment in the Federal Pell Grant Program;
- ◊ have had no severe performance, audit, or program review deficiencies for any SFA Program;
- ◊ be financially responsible in accordance with the standards of 34 CFR 668.15;
- ◊ be current on program and financial reports and SFA audits for the 12-month period immediately preceding the Direct Loan application date;
- ◊ be current on required federal cash transaction reports and have no final determination of cash on hand that exceeds "immediate need";

- have no material findings in annual financial audits submitted for the three most recent years preceding the date of application to participate in Direct Loans; and

- provide assurance that the school has no delinquent debts to the federal government, unless the debts are being repaid under an arrangement satisfactory to the government or unless the Department decides the appropriate federal agency has not determined the existence or amount of the debts.

Participation for deferment purposes only

A school that has never participated in SFA Programs but wants to be considered an eligible school **for deferment purposes only** must prove, before it can certify deferment forms, that it meets the Department's definition of an eligible school. For more information about eligibility for deferment purposes, schools should write

U.S. Department of Education
Room 3915, Initial Participation Branch
600 Independence Avenue SW
Washington, DC 20202-5244

WITHDRAWING FROM THE DIRECT LOAN PROGRAM

A school may withdraw from the Direct Loan Program by notifying the Department in writing at least 60 days before the planned withdrawal date. Unless the Department approves an earlier date, the withdrawal is effective (1) 60 days after the school notifies the Department or (2) the date the school designates, whichever is **later.**

Whether program withdrawal is voluntary or the result of Department action, an SFA audit is required as is a final reconciliation to account for all funds drawn down.

Loss of eligibility

For steps a school must take if it loses its eligibility to participate in Direct Loans, see Chapter 3. For loss of eligibility due to high cohort default rates, see page 11-65.

section 2 Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans

This section compares the terms and conditions of Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans.

CREDIT HISTORY

A borrower's credit history does not affect his or her eligibility to borrow Direct Subsidized and Unsubsidized Loans. For Direct PLUS Loans, credit history is a factor: A parent with an adverse credit history is not eligible for a Direct PLUS Loan unless the parent meets additional criteria, discussed below.

34 CFR 685.200(b)(1)(vii)

The Loan Origination Center obtains a credit report for every Direct PLUS Loan applicant. An applicant is considered to have an adverse credit history if he or she

- ◊ is delinquent in repaying any debt by 90 days or more as of the date of the credit report;
- ◊ has, during the five years preceding the credit report's date, been determined to be in default on a debt; has had his or her debts discharged in bankruptcy; or has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an SFA debt.

The absence of a credit history is not considered to be an adverse credit history. That is, a parent cannot be rejected for a Direct PLUS Loan because he or she has no credit history.

Endorser and extenuating circumstances

A parent may still be able to receive a Direct PLUS Loan by obtaining an endorser with no adverse credit history. (The endorser may not be the student for whom the parent is borrowing.) Alternatively, a parent may appeal a determination of adverse credit history to the Department by documenting extenuating circumstances. If the Department is satisfied such circumstances exist, the parent is allowed to borrow a Direct PLUS Loan.

LOAN LIMITS

Direct PLUS Loans

Direct PLUS Loans do not have finite annual and aggregate loan limits, as do Direct Subsidized and Unsubsidized Loans (see below). A parent may borrow any amount up to the dependent student's cost of attendance (COA) minus other estimated financial assistance for that student (COA - EFA = Direct PLUS Loan limit).

Direct Subsidized and Unsubsidized Loans

Loan limits for Direct Subsidized and Unsubsidized Loans and subsidized and unsubsidized Federal Stafford Loans are the same. The chart below shows the maximum amounts a student may borrow in a combination of Direct Subsidized and Unsubsidized Loans. Direct Loan Program borrowing limits always include the amounts a student has outstanding in subsidized and unsubsidized loans **under both the Direct Loan and FFEL programs,** even if the student has consolidated any of these loans. If the borrowing limits have been met, the loans must be repaid in full or in part before a student may apply again for Direct Subsidized or Unsubsidized Loans. Federal and Direct PLUS Loans are not included when assessing outstanding subsidized and unsubsidized indebtedness.

Direct Subsidized and Unsubsidized Combined Annual and Aggregate Loan Limits

Student Year	Annual Limit	Aggregate Limit
Dependent Undergraduates		
1st year	$2,625	
2nd year	$3,500	
3rd, 4th, and 5th years	$5,500	$23,000
Independent Undergraduates		
1st year	$6,625[1]	
2nd year	$7,500[2]	
3rd, 4th, and 5th years	$10,500[3]	$46,000[4]
Graduate Students	$18,500[5]	$138,500[6]

1. No more than $2,625 of this amount may be in subsidized loans.
2. No more than $3,500 of this amount may be in subsidized loans.
3. No more than $5,500 of this amount may be in subsidized loans.
4. No more than $23,000 of this amount may be in subsidized loans.
5. No more than $8,500 of this amount may be in subsidized loans.
6. No more than $65,500 of this amount may be in subsidized loans.

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Direct Loan Program: Undergraduate Annual Loan Limits

Student Year	Length of Program or Final Period of Study: Full academic year	2/3 to less than full academic year	1/3 to less than 2/3 academic year	Less than 1/3 academic year
1st year				
Dependent and Independent Students Subsidized and Unsubsidized	$2,625	$1,750	$875	0
Independent Student Unsubsidized	$4,000	$2,500	$1,500	0
2nd year				
Dependent and Independent Students Subsidized and Unsubsidized	$3,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Unsubsidized	$4,000	$2,500	$1,500	0
3rd year or higher				
Dependent and Independent Students Subsidized and Unsubsidized	$5,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Unsubsidized	$5,000	Proportional Proration	Proportional Proration	Proportional Proration

Dependent undergraduate students

A dependent undergraduate student who has not yet successfully completed his or her first year of study may borrow combined subsidized and unsubsidized loans not to exceed an annual total of

- $2,625 for a program of study at least an academic year in length;
- $1,750 for a program of study at least two-thirds of an academic year but less than a full academic year in length; and
- $875 for a program of study at least one-third but less than two-thirds of an academic year in length.

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Note: Students may not receive Direct Loans for programs that are less than one-third of an academic year.

A dependent undergraduate student who has successfully completed his or her first year of study but not the second year may borrow up to $3,500 in combined subsidized and unsubsidized loans for a period of at least an academic year in length. If the remaining portion of the program is less than an academic year, the loan must be prorated. (See page 11-19 for a discussion of proration.)

For a dependent undergraduate student who has successfully completed his or her first and second year of study but not the remainder of the program, the combined subsidized and unsubsidized loan limit is $5,500 for a period of at least an academic year in length. If the remaining portion of the program is less than an academic year, the loan must be prorated.

The maximum aggregate amount dependent undergraduates may borrow in a combination of subsidized and unsubsidized loans is $23,000.

Independent students are eligible for higher annual and aggregate limits in Direct Unsubsidized Loans, as the charts on the previous pages show.

Independent undergraduate students

An independent undergraduate student who has not yet successfully completed his or her first and second year of study may borrow additional amounts of Direct Unsubsidized Loans not to exceed

- ◊ $4,000 for a program of study (or remaining portion of a program) that is at least an academic year in length;
- ◊ $2,500 for a program of study (or remaining portion of a program) that is at least two-thirds but less than a full academic year in length; and
- ◊ $1,500 for a program of study (or remaining portion of a program) that is at least one-third but less than two-thirds of an academic year in length.

As mentioned earlier, students may not receive Direct Loans for programs that are less than one-third of an academic year.

An independent undergraduate student who has successfully completed his or her first and second year of study but not the remainder of the program may borrow additional amounts of Direct Unsubsidized Loans not to exceed $5,000 for a period of at least an academic year in length. If the remaining portion of the program is less than an academic year, the loan must be prorated (see page 11-19).

The maximum aggregate amount an independent undergraduate may borrow in Direct Subsidized and Unsubsidized Loans is $46,000. However, no more than $23,000 of this amount may be in subsidized loans. Remember that the aggregate limit includes amounts borrowed under the FFEL Program.

Dependent student eligibility for higher limits— 34 CFR 685.203(c)

Dependent students may be eligible for the same annual and aggregate loan limits as independent undergraduate students if it is likely a parent will be precluded from borrowing Direct PLUS Loans and is otherwise unable to provide the EFC. The school must receive documentation of exceptional circumstances showing why a parent cannot borrow. Such circumstances include an adverse credit history or situations where the parent's whereabouts are unknown, the parent is incarcerated, or the parent receives only public assistance or disability benefits.

Financial aid administrators must review the family's financial status and consider their students' indebtedness before permitting them to borrow under higher Direct Unsubsidized Loan limits. Aid administrators also must put in writing the reason the parent cannot obtain a Direct PLUS Loan and keep supporting documentation in the student's file.

Graduate students

Graduate students may borrow up to $18,500 annually in a combination of subsidized and unsubsidized loans. No more than $8,500 may be in subsidized loans. Loans for graduate students are not subject to proration. The maximum aggregate amount, which includes both undergraduate and graduate borrowing, is $138,500. No more than $65,500 of this amount may be in subsidized loans.

Frequency for annual loan limits

Annual Direct Loan limits are restricted by the time period to which they apply. That is, to be eligible to receive a subsequent loan, a borrower must meet certain calendar time or academic progress standards. For more information, see "Frequency for Annual Loan Limits" in this section.

Determining academic year level

A student's academic year level for loan limit purposes is set according to the school's standards for the time normally required to complete a given program. For example, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish. Further, in a program of undergraduate study, the number of years a student has completed includes any prior enrollment in an eligible program of undergraduate education for which the student was awarded an associate or bachelor's degree—if the school requires the degree for admission to the program in which the student is currently enrolled at the school.

Teacher certification

There are two cases (teacher certification and preparatory coursework) where students are eligible for Direct Loans without being enrolled in an eligible program (see Chapter 2, Section 1). Loan limits for these students are affected by factors besides the length of the program. Students enrolled in teacher certification or recertification programs are considered as fifth-year undergraduate students when determining annual loan limits and may borrow up to $5,500 a year (plus $5,000 in unsubsidized loans for an independent student), subject to reductions for programs less than an academic year in length.

Preparatory coursework

Students taking coursework necessary for enrollment in an eligible program for a single period of up to 12 consecutive months may receive Direct Loans for this preparatory coursework. Students preparing for an undergraduate program borrow at the loan level determined for first-year undergraduates. A student with a bachelor's degree preparing for a graduate or professional program may borrow up to the annual loan limit for fifth-year undergraduates.

Exceeding loan limits

Students who borrow more than the annual or aggregate loan limits for which they are eligible under SFA loan programs will lose eligibility for further aid from **any** SFA Program until the excess amount is repaid in full or unless other arrangements are made (see Section 1).

Health profession students' eligibility for higher unsubsidized limits—P.L. 104-134

An increase in **annual** Direct Unsubsidized Loan limits is permitted for students who could have borrowed under the Health Education Assistance Loan (HEAL) Program but who are no longer eligible because they did not borrow under that program before October 1, 1995. Students in this category who are enrolled **full time** in schools participating in the HEAL Program are eligible for higher Direct Unsubsidized Loan amounts. Conversely, students who remain eligible to borrow under HEAL (students who **did** receive HEALs before October 1, 1995) may **not** receive increased Direct Loan amounts.

A school participating in HEAL is one that made HEAL disbursements during Fiscal Year 1995 (October 1, 1994 through September 30, 1995) and has continued to participate in the program. Schools that have withdrawn from the HEAL program—or have simply stopped making HEALs—after FY 95 may originate Direct Loans at the increased limits for any loan period beginning before July 1, 1998 (see "Dear Colleague" Letter GEN-97-4 for more information). The Department will notify such schools if they are permitted to originate at the increased limit after July 1, 1998.

When determining additional Direct Unsubsidized Loan limits, participating HEAL schools must use the current HEAL Program and Discipline loan limits, described in the Department of Health and Human Services "Student Financial Aid Guidelines Notebook" in Section 104.3.2. Note that, unlike in HEAL, no need analysis is required for the extra Direct Unsubsidized Loan amounts.

In general, **aggregate** Direct Unsubsidized Loan limits still apply for health professions students. The Department is increasing the aggregate limit only for those health professions students who are eligible to receive the increased annual amounts. The new aggregate limit for these students (and only these students) will be $189,125, less the aggregate amounts of any subsidized loans made to the student. The Department plans to publish a "Dear Colleague" Letter on this topic shortly. When issued, this up-to-date information will also be available on the SFA BBS.

PRORATED ANNUAL LOAN LIMITS—DIRECT SUBSIDIZED AND UNSUBSIDIZED LOANS

Proration applies only to undergraduates

Generally, a dependent or independent undergraduate may borrow up to the annual limit applicable to the student's year in school. However, the maximum amount an undergraduate student may borrow must be reduced, or **prorated**, in certain situations. **Note that Direct PLUS Loans are not subject to proration.**

Loans must be prorated when a student is enrolled

- ◊ in a program containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year; or
- ◊ in a program that is longer than an academic year, but the final period of study is shorter than an academic year.[1]

There are two types of proration: **fixed** and **proportional**.

- ◊ **Fixed** prorated loan limits are set dollar amounts based on the length of a student's program (or final period of study) in relation to a full academic year.
- ◊ **Proportional** prorated loan limits are calculated amounts based on the ratio of the credit or clock hours in a final period of study to the credit or clock hours in the school's academic year.

Program less than AY—fixed proration

Schools use fixed proration when students are enrolled in programs containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year. Chapter 3 contains extensive information about academic year requirements. Briefly, an academic year must contain **at**

[1]Proration is also required in certain cases where a program is exactly one academic year long: For example, a student withdraws from a one-year program and later, in a new academic year, completes the program (either re-enrolling at the original school or enrolling at another school). In this case, the student is enrolled in a final period of study that is shorter than an academic year.

least 30 weeks of instructional time[2] **and** 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. To determine the length of a student's program in relation to a full academic year, schools must compare two fractions: the number of clock or credit hours in the program divided by the number of hours in the academic year, and the number of weeks of instructional time in the program divided by the number of weeks in the academic year. The lesser of these fractions determines the relation of program length to academic year length.

Fixed proration example

Hector, an independent student, has enrolled in a 650-clock hour, 28-week program. The school defines the academic year for the program as 900 clock hours and 30 weeks of instructional time. Because Hector's program is shorter than an academic year, his Direct Loans must be prorated. The school compares the two fractions:

$$\frac{\text{650 clock hours in program}}{\text{900 clock hours in academic year}} \qquad \frac{\text{28 weeks instructional time in program}}{\text{30 weeks instructional time in academic year}}$$

$$650/900=.72 \qquad 28/30=.93$$

Of the two fractions, the smaller is 650/900 (.72); the school uses .72 as the length of Hector's program when determining the prorated loan amount. The program is less than a full year but greater than 2/3 (.66) of an academic year. Therefore, Hector may borrow up to $1,750 in combined Direct Subsidized and Unsubsidized Loans (see the loan limits chart on page 11-15). Because he is an independent student, he may be eligible for an additional prorated Direct Unsubsidized Loan of up to $2,500.

Final period of study less than AY

Schools must prorate a student's loan if the final period of study is shorter than an academic year. A final period of study is one at the end of which a student will complete a program. At a **term-based credit hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year. At a **term-based clock hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirements for a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

[2]The Department may waive this requirement for some programs of fewer than 30 weeks (see Chapter 3).

Rousimoff College has an academic year that consists of three quarters: fall, winter, and spring. Andre will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter. Because the fall quarter is in the same academic year as Andre's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which Andre will not enroll. Because the fall quarter is part of the final period of study, the loan Andre receives in the fall must be prorated, just as his spring loan must be prorated.

At a **nonterm** school (where programs are measured only in clock or credit hours), a final period of study is considered less than an academic year if the final period consists of fewer clock or credit hours than the minimum statutory requirements for a full academic year.

To prorate the loan for a program that exceeds an academic year but has a final period of study less than a full academic year in length, schools must calculate what proportion of a full academic year the final period of study represents. The loan amount is then prorated on that basis.

Final period example

José is an independent third-year student at Van Dam College. Van Dam's academic year has 36 quarter hours and three quarters. José needs to complete only 24 quarter hours to finish his program and enrolls in the fall and winter quarters. Because his final period of study (2 quarters) is less than an academic year (3 quarters), his Direct Loans must be prorated. The school determines the proportion of the academic year the final period of study represents by dividing the credit hours in this period by the number in a full academic year:

$$\frac{\text{24 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all third-year students ($5,500) by 24/36 to determine the maximum Direct Subsidized Loan José can receive:

$$24/36 \times \$5{,}500 = \$3{,}667$$

José can receive up to $3,667 in combined Direct Subsidized and Unsubsidized Loans. Because José is an independent student, he may be eligible for an additional Direct Unsubsidized Loan. To determine the amount, Van Dam multiplies the Unsubsidized limit for independent students ($5,000) by 24/36:

$$24/36 \times \$5{,}000 = \$3{,}333$$

José may be eligible for an additional prorated Direct Unsubsidized Loan of up to $3,333.

In some cases, the school will use both fixed and proportional proration to determine the loan amount for a final period of study. See the example on the next page.

Mixed proration example

Andre is an independent second-year student at Rousimoff College. He has 16 quarter hours to complete in his program and will enroll in the fall and spring quarters. Each quarter at Rousimoff consists of 10 weeks of instructional time. Andre will graduate at the end of the spring quarter. Because this final period of study is shorter than an academic year, Andre's Direct Loans must be prorated. Rousimoff determines the length of the final period by dividing the number of quarter hours in the period by the number of hours in the academic year:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all second-year students ($3,500) by 16/36 to determine the maximum amount Andre can receive in combined Direct Subsidized and Unsubsidized Loans:

16/36 X $3,500 = $1,556

Because Andre is an independent student, he may be eligible for an additional Direct Unsubsidized Loan. The school compares the two fractions required for fixed proration:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}} \qquad \frac{\text{20 weeks instructional time in final period}}{\text{30 weeks instructional time in academic year}}$$

16/36 = .44 20/30 =.67

Of the two fractions, the smaller is .44; the school uses .44 as the length of Andre's final period of study when determining the prorated loan amount. The period is less than 2/3 of an academic year (.66) but greater than 1/3 (.33). Therefore, Andre may be eligible for an additional prorated Direct Unsubsidized Loan of up to $1,500.

Enrollment status changes

If a student drops or adds a course after the school has originated a prorated loan, the school **may** readjust the loan amount but is not required to do so. Of course, a student who drops courses must still be enrolled at least half time to be eligible for any loan amount.

FREQUENCY OF ANNUAL LOAN LIMITS

The annual loan limit for Direct Loans limits how much a student can borrow in a single academic year. Once the student has reached the annual loan limit, he or she cannot receive another Direct Loan until he or she begins another academic year. There are two types of academic year a school can use in determining when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Only term-based credit-hour programs can use SAYs. Clock-hour and nonterm credit-hour programs must use BBAYs. If a program at

a term-based credit-hour school contains fewer than 30 weeks of instructional time in a year (unless the Department grants a waiver for an academic year of less than 30 weeks), the school must use only SAYs for borrowers in that program.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in Chapter 3.

Summer terms

For a program that uses SAYs, a summer term may be part of the academic year that preceded that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "leader"). The school can

- ◊ use a strict policy that summer terms are always either trailers or leaders,
- ◊ determine whether a summer term is a trailer or leader on a program-by-program basis, or
- ◊ determine whether a summer term is a trailer or leader on a case-by-case basis.

Summer mini-sessions can be grouped together as a single trailer or leader, or they can be treated separately and assigned to different SAYs. If the summer mini-sessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a mini-session for which the student was not enrolled.

Borrower-Based Academic Year

A BBAY is not a set period like an SAY; instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a school that has new students beginning enrollment every month might use a BBAY for each student that begins in the month the student enrolls, rather than using an SAY that begins in the fall regardless of when the student actually begins classes. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (see the next page for one exception to this requirement for term-based credit-hour programs).

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As noted previously, a school must use BBAYs for clock-hour and nonterm credit-hour programs. A school may choose to use a BBAY instead of an SAY for a term-based credit-hour program unless the program contains fewer than 30 weeks of instructional time in a year; in this case, as mentioned earlier, the school must use an SAY for the program.

Term-based credit-hour programs

For a term-based credit-hour program, the school can use BBAYs for all its students or just for students enrolled in certain programs, or it may use BBAYs on a student-by-student basis. The school can also alternate BBAYs with SAYs for a student, but the academic years must not overlap. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

The BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer trailer or leader). The BBAY may include terms and/or mini-sessions the student does not attend if the student could have enrolled at least half time in those terms or mini-sessions; however, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term. If the BBAY includes a summer term, the BBAY need not meet the 30-week minimum requirement for an academic year.

Clock-hour programs, nonterm programs

For a clock-hour or nonterm program, the BBAY begins when the student enrolls. Because a BBAY must meet the minimum statutory requirements for an academic year, the BBAY must contain at least 30 weeks of instructional time and the appropriate number of credit or clock hours (24 semester or trimester hours, 36 quarter hours, or 900 clock hours). The BBAY does not end until the student has completed the number of weeks **and** the number of hours in the academic year. A student who is attending less-than-full time will take longer to complete the academic year than a full-time student.

Eligibility for Further Loans

In general, once the student has reached the annual loan limit, he or she cannot receive another Direct Loan until he or she begins a new academic year. A student who has already received one Direct Loan within an academic year may receive another loan if he or she has not yet reached the annual limit. In addition, a student who has already borrowed up to the annual limit within an academic year can receive another loan if his or her annual limit is increased, either because he or she progresses to a grade level with a higher limit or because his or her dependency status changes to independent. In all cases, the student may borrow the

difference between the amount already borrowed within the academic year and the student's loan limit.

Note that for a nonterm program, the student will never progress to a higher grade level within an academic year, and thus will only have a change in the loan limit if his or her dependency status changes. The student only moves to a higher grade level when he or she completes the BBAY.

INTEREST RATES

The interest rates for Direct Subsidized and Unsubsidized Loans are the same, but the Department does not charge interest to Direct Subsidized Loan borrowers during the in-school, grace, and deferment periods. Direct Unsubsidized Loan borrowers are responsible for interest during all periods, including in-school, grace, and deferment periods.

The Department also does not subsidize Direct PLUS Loans; borrowers are responsible for all interest, including that which accrues during the student's in-school period and during periods of deferment for the parent.

All borrowers are charged interest during forbearance periods.

Interest rates are variable; legislation caps them at 8.25% for Direct Subsidized and Unsubsidized Loans and at 9% for Direct PLUS Loans. Interest rates are determined on June 1 each year and apply to the following 12-month period from July 1 to June 30.

Subsidized and Unsubsidized Loans: two interest formulas

Currently, there are two formulas for calculating the variable interest rate for Direct Subsidized and Unsubsidized Loans:

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are in **in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **2.5** percentage points. The rate for these loans for July 1, 1997 through June 30, 1998 is 7.66%.

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are **not in in-school, grace, or deferment periods**, the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **3.1** percentage points. The rate for these loans for July 1, 1997 through June 30, 1998 is 8.25%. **Note** that this formula is also used for *any* Direct Subsidized or Unsubsidized Loan first disbursed before July 1, 1995, in *any* period.

Direct PLUS

Currently, the interest rate for Direct PLUS Loans equals the bond equivalent rate of the 52-week Treasury bills auctioned at the final auction before June 1, plus 3.1 percentage points. The rate for these loans for July 1, 1997 through June 30, 1998 is 8.98%.

Future change in interest rate calculations

Beginning July 1, 1998, interest rate calculations change. For Direct Subsidized and Unsubsidized Loans first disbursed on or after July 1, 1998, the interest rate will equal the bond equivalent rate of the security with a comparable maturity, that the Department will establish, plus **1** percentage point. The rate will still be determined on June 1 each year and apply to the following 12-month period from July 1 to June 30. The rate will not exceed 8.25%. **This interest rate calculation applies whether or not a loan is in an in-school, grace, or deferment period.** The same calculation applies to Direct PLUS Loans first disbursed on or after July 1, 1998, except the rate will equal the bond equivalent rate of the security with a comparable maturity, that the Department will establish, plus **2.1** percentage points. The rate will not exceed 9%. Specific information on which securities' bond equivalent rates will be used was not available at the time this Handbook went to print. The Department will issue further guidance on this topic at a later date, in the form of a "Dear Colleague" Letter. When issued, this up-to-date information will also be available on the SFA BBS.

During certain periods, borrowers may choose to pay the interest for which they are responsible:

- ◊ Direct Subsidized Loan borrowers may choose to pay interest as it accrues during forbearance.
- ◊ Direct Unsubsidized Loan borrowers may choose to pay interest as it accrues during in-school, grace, deferment, and forbearance periods.
- ◊ Direct PLUS Loan borrowers may choose to pay interest as it accrues during deferments or forbearance.

Capitalizing interest

If borrowers choose not to make interest payments during applicable periods, the interest is capitalized, that is, added to the borrower's loan principal.

- ◊ Interest that accrues and is not paid on a Direct Subsidized loan during forbearance is capitalized when that period ends.
- ◊ Interest that accrues and is not paid on a Direct Unsubsidized Loan before the loan enters repayment is capitalized when the loan enters repayment.

- ◊ Interest that accrues and is not paid on a Direct Unsubsidized Loan or Direct PLUS Loan during a period of deferment or forbearance is capitalized when that period ends.

Accrued interest is capitalized annually for Direct Subsidized and Unsubsidized Loans repaid under the Income Contingent Repayment (ICR) Plan (or under an alternative repayment plan) when the borrower's payments are not high enough to cover the interest amounts that accrue. The amount of interest that may be capitalized in such cases is limited. (See page 11-28 for more information on repayment plans and 11-32 for more information on ICR capitalization.)

The Department may capitalize unpaid interest on any Direct Loan that defaults.

Capitalizing interest increases the loan's principal balance, the interest that must be paid during repayment, and the total amount the borrower will pay over the life of the loan.

ADDITIONAL BORROWING COSTS

Loan fees

The Department charges a loan fee of 4% of the principal for any Direct Loan (except a Direct Consolidation Loan) and deducts this fee from the loan proceeds. A prorated portion of the fee is deducted from each disbursement. If the loan is canceled or the loan amount is adjusted downward within 120 days of disbursement, the Department cancels or reduces the loan fee attributable to the disbursement portion repaid. A school that learns it should have canceled, but did not cancel, a borrower's loan proceeds within 120 days of disbursement should identify all affected loan records and report the date the loan(s) should have been canceled. This action will ensure that borrowers will not be charged loan fees for which they should not be responsible.

Late charge

The Department can require borrowers to pay a late charge of up to six cents for each dollar of a required monthly payment (or portion of a payment) not paid within 30 days after the due date. **Currently, the Department is not charging late fees.**

Collection charges

On a Direct Loan **not** in default, the Department may require borrowers or endorsers to pay any costs, in excess of routine collection costs, incurred in collecting installments not paid when due. Such charges do not include routine costs of preparing letters or notices or making local or long-distance telephone calls. An example of a non-routine collection cost is the cost of processing checks returned for insufficient funds. On a Direct Loan in default, the Department requires borrowers and any endorsers to pay additional costs.

GRACE PERIODS—DIRECT SUBSIDIZED AND UNSUBSIDIZED LOANS

A six-month grace period begins the day after a Direct Subsidized or Unsubsidized Loan borrower ceases to be enrolled as at least a half-time student at an eligible school. During the grace period, Direct Subsidized Loan borrowers are not required to make payments on loan principal and are not charged interest. Direct Unsubsidized Loan borrowers are not required to make payments on loan principal but are responsible for the interest that accrues.

A borrower who returns to school as at least a half-time student before the grace period ends may again postpone loan repayment while in school and will be entitled to a full grace period after terminating enrollment or dropping below half-time status. Once a borrower's grace period expires, he or she must request, and be granted, a deferment or forbearance in order to postpone payments on a Direct Subsidized or Unsubsidized Loan. (See "Deferment" on page 11-34 and "Forbearance" on page 11-37.)

The grace period for a Direct Subsidized or Unsubsidized Loan borrower enrolled in a correspondence program begins on the earliest of the date

- ◊ the borrower completes the program,
- ◊ the borrower falls 60 days behind the due date for submitting a scheduled assignment,[3] or
- ◊ that is 60 days following the latest allowable date the school establishes for completing the program.

A Direct PLUS Loan borrower does not receive a grace period.

REPAYMENT

Direct Subsidized and Direct Unsubsidized Loans

The loan repayment period for Direct Subsidized Loans and Direct Unsubsidized Loans begins the day after the grace period ends. At that point, all borrowers become responsible for paying the principal and interest. The first payment is due within 60 days of the start of the repayment period.

[3]Schools have the authority to allow one restoration of in-school status for borrowers who are 60 days late submitting a correspondence assignment. The borrower is required to state in writing, within the 60-day period, that he or she intends to continue in the program. The written statement also must show the borrower understands that required lessons must be submitted on time.

Direct PLUS Loans

The repayment period for Direct PLUS Loans begins the day the loan is **fully** disbursed. The first payment of principal and interest is due within 60 days after the final loan disbursement.

All loan payments are applied in this order: (1) accrued charges and collection costs, (2) outstanding interest, and (3) outstanding principal.

Repayment plans

Direct Subsidized and Unsubsidized Loan borrowers may repay their loans through one of the following repayment plans:

- the Standard Repayment Plan,
- the Extended Repayment Plan,
- the Graduated Repayment Plan,
- the Income Contingent Repayment Plan, or
- an alternative repayment plan

Direct PLUS Loan borrowers may choose from any of these plans except Income Contingent Repayment.

In general, all of a borrower's Direct Loans must be repaid under the same repayment plan, except that a borrower may repay a Direct PLUS Loan or Direct PLUS Consolidation Loan separately from other Direct Loans. The *Repayment Book* explains repayment plans in detail.

Shortly before a loan enters repayment, the borrower receives information from the Department's Direct Loan Servicing Center about the various repayment plans (including the estimated amounts the borrower would pay under each plan) and a request that the borrower select a plan. Borrowers who fail to choose are automatically placed in the Standard Repayment Plan.

The time a borrower's loan is in repayment will vary depending on the total amount owed and the repayment plan selected.

Direct Loan Program Repayment Plans[1]

Standard Repayment Plan	• Fixed annual repayment amount paid over a fixed period of time[2] • Maximum repayment period 10 years[3] • $50 minimum monthly payment
Extended Repayment Plan	• Fixed annual repayment amount paid over an extended period of time[2] • Maximum repayment period varies depending on total amount of borrower's Direct Loans[3,4] • $50 minimum monthly payment
Graduated Repayment Plan	• Two or more graduated levels of repayment[2] • Maximum repayment period varies depending on total amount of borrower's Direct Loans[3,4] • Minimum monthly payments may not be less than 50%, nor more than 150%, of the payment if loan were repaid under the Standard Repayment Plan • Minimum monthly payment must at least cover interest that accrues monthly
Income Contingent Repayment Plan	• Not available for Direct PLUS Loans or Direct PLUS Consolidation Loans • Maximum repayment period may not exceed 25 years[5,6] • Varying annual payment amounts generally based on AGI of borrower (and spouse) and total amount of Direct Loans but will never exceed 20% of discretionary income

1 This chart does not include the alternative repayment plan, which will vary from borrower to borrower.

2 The monthly amount a borrower pays will reflect changes in the variable interest rate, unless the borrower requests that the maximum number of monthly payments be extended.

3 Excludes any period of authorized deferment or forbearance.

4
- 12-year maximum repayment period if total amount of Direct Loans is less than $10,000
- 15-year maximum repayment period if total amount of Direct Loans is between $10,000 and $19,999.99
- 20-year maximum repayment period if total amount of Direct Loans is between $20,000 and $39,999.99
- 25-year maximum repayment period if total amount of Direct Loans is between $40,000 and $59,999.99
- 30-year maximum repayment period if total amount of Direct Loans is equal to or greater than $60,000

5 If the loan is not repaid within the maximum repayment period, the remaining portion of the loan is canceled. Any canceled loan amount is currently considered taxable income.

6 Excludes any periods of authorized deferments or forbearance. Also, if a borrower has made payments under the Standard Plan or the 12-year Extended Plan and then switches to ICR, the earlier payment periods are counted toward the 25-year repayment period. Earlier payment periods in other plans do not count toward the 25-year period.

Standard Repayment

With Standard Repayment, borrowers make fixed payments of at least $50 a month for up to 10 years. The Standard Repayment Plan may result in the lowest amount of interest paid because the repayment period is shorter than it would be under the other plans. In general, the shorter the repayment period, the lower the total interest a borrower pays over the life of the loan.

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With Extended Repayment, borrowers make fixed payments of at least $50 a month over a period ranging from generally 12 to 30 years, depending on the total amount borrowed.

Extended Repayment

Extended/Graduated Repayment

Amount of Debt	Repayment Period May Not Exceed
Less than $10,000	Generally 12 years
$10,000-$19,999	15 years
$20,000-$39,999	20 years
$40,000-$59,999	25 years
$60,000 or more	30 years

For lower loan amounts, the repayment period may be less than 12 years because a borrower must make payments of at least $50 a month.

Graduated Repayment

With Graduated Repayment, borrowers' payments start out low, then increase every two years. The repayment period will vary from generally 12 to 30 years, depending on the total amount borrowed. Under Graduated Repayment, the minimum monthly payment is either the interest that accumulates between payments or one-half the payment a borrower would make using the Standard Repayment Plan, whichever is larger. However, a borrower's monthly payment will never increase to more than one-and-one-half times what the borrower would pay under Standard Repayment. Generally, the amount a borrower repays over the life of the loan will be higher under Graduated Repayment than under Extended Repayment. However, Graduated Repayment has the advantage of offering lower monthly payments during the early portion of a borrower's career when the borrower's income is likely to be lower.

Income Contingent Repayment

The Income Contingent Repayment (ICR) Plan allows Direct Subsidized and Unsubsidized Loan borrowers to make monthly payments based on annual income and the amount of outstanding Direct Subsidized and Unsubsidized Loans. (As mentioned earlier, ICR is not available to repay Direct PLUS Loans.)

To participate in the ICR Plan, a borrower (and, if married, the borrower's spouse) must sign a form that permits the Internal Revenue Service to inform the Department of certain tax return information, such as adjusted gross income (AGI). Each year, the Department uses the borrower's (and spouse's) information to calculate the borrower's monthly payment.

Alternative documentation

In certain circumstances, the Department can require alternative documentation of income from borrowers and, if married, their spouses. In fact, the Department will require alternative documentation from borrowers in their first year of repayment. This documentation includes pay stubs, canceled checks or, if these are unavailable, signed statements explaining the borrowers' income sources. Borrowers also can submit

alternative documentation to request that their monthly payments be adjusted in special circumstances—for example, if the borrower (or spouse) becomes unemployed. See the *Repayment Book* for more information on alternative documentation.

ICR repayment period

The maximum repayment period is 25 years. If the borrower has made payments under the Standard Plan or the 12-year Extended Plan and then switches to the ICR Plan, those earlier payment periods are counted toward the 25-year repayment period. Earlier payment periods in other plans do not count toward the 25-year period. If the borrower has not repaid the loans after 25 years under ICR, the unpaid portion is discharged (canceled); however, currently the borrower must pay taxes on the discharged amount.

Monthly payments are recalculated annually. Borrowers pay the **lesser** of

- ◊ the amount that would have been paid if the borrower repaid the loan in 12 years, multiplied by an income percentage factor that varies with the borrower's annual income; or

- ◊ 20% of the borrower's discretionary income, which is the borrower's AGI minus the poverty level for his or her family size; the poverty level is determined by published U.S. Department of Health and Human Services guidelines.

If income is less than or equal to the poverty level for the borrower's family size, the monthly payment will be zero. If the calculated monthly payment is greater than zero but less than $5, borrowers are required to make a $5 monthly payment. If the monthly payment is calculated as more than $5, borrowers must pay the actual calculated payment amount.

ICR—capitalization of interest

As noted previously, if monthly payments under ICR do not cover accruing interest, the unpaid interest is capitalized once each year. If capitalization increases the outstanding principal the borrower owes to 10% more than the original principal owed when the repayment period began, interest will continue to accumulate but will not be capitalized. The limit on the amount of interest capitalized under ICR does not apply during any periods of forbearance or during periods of deferment for Direct Unsubsidized Loans.

The Department can designate the ICR Plan for a borrower who defaults.

Alternative repayment plan

The Department may provide an alternative repayment plan if the borrower can demonstrate satisfactorily that the other repayment plans' terms and conditions are not adequate for his or her exceptional circumstances. The Department may require evidence of exceptional circumstances.

The repayment period under an alternative repayment plan may not exceed 30 years from the date the Direct Loan enters repayment. The maximum time frame to repay does not include periods of deferment or forbearance. The terms under which interest is capitalized are the same as for the ICR Plan.

If a borrower is permitted to use an alternative repayment plan, the Department notifies him or her in writing of the plan's terms. The borrower has the option to accept the plan or choose another.

Switching repayment plans

A borrower who decides the repayment plan selected no longer meets his or her needs can switch plans, as long as the new plan's maximum repayment period is longer than the period the borrower's loan has already been in repayment. The exception to this requirement is that a borrower can switch to ICR at any time.

A borrower repaying a defaulted loan under ICR may not switch plans unless he or she

- ◊ was required to make, and did make, a payment under ICR in each of the preceding three months; or
- ◊ was not required to make payments but made three reasonable and affordable payments in each of the preceding three months.

In either case, the borrower must submit a request to the Department to switch plans, and the Department must approve the request.

Prepayments

If a borrower pays any amount that exceeds the amount due, the excess is a prepayment. A Direct Loan borrower may prepay all or part of a loan at any time without penalty. A prepayment is applied first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal. If the amount of the prepayment **equals or exceeds** the monthly repayment amount under the borrower's repayment plan, the Department advances the next payment due date (unless the borrower requests otherwise) and notifies the borrower of the revised due date.

Any refunds the Department receives from a school that are due a borrower are applied against the borrower's outstanding principal. The Department notifies the borrower of any refunds.

Periods of authorized deferment or forbearance are not included in any repayment period. The actual number of payments a borrower makes or the fixed monthly repayment amounts may be adjusted over time to reflect changes in the variable interest rates.

DEFERMENT

A deferment is a period during which payments of principal on Direct Loans are postponed. No interest is charged Direct Subsidized Loan borrowers. Interest accrues and is charged Direct Unsubsidized Loan and Direct PLUS Loan borrowers, who may pay the interest during the deferment or have the interest added to the loan principal (capitalized) at the deferment's end.

34 CFR 685.204

Once repayment begins, a borrower meeting certain requirements is entitled to a deferment, although the borrower must **request** one from the Department. The borrower should continue making payments on the loan until he or she receives the Department's written notice of the deferment's approval.

A deferment period begins when the condition that makes the borrower eligible for a deferment begins, such as the date the borrower becomes unemployed or enters study in a fellowship program. A deferment may be granted retroactively from the date of application for up to six months.

Effect of default

A borrower is not eligible for any deferments on a defaulted loan unless he or she has made payment arrangements satisfactory to the Department **before** the loan is transferred from the Direct Loan Servicing Center to the Department's Debt Collection Service. Borrowers should contact their Direct Loan Servicing Center to make such arrangements.

In general (see the exception on page 11-36), there are five types of deferments authorized for Direct Loans:

- ◊ in-school student status,
- ◊ study in a graduate fellowship program,
- ◊ study in an approved rehabilitation training program,
- ◊ unemployment, and
- ◊ economic hardship.

Deferment provisions listed on existing promissory notes cannot be removed. Additionally, future legislation may provide for new deferment conditions that apply to **all** borrowers.

In-school deferment

A deferment for at least half-time study at an eligible school is referred to as an "in-school" deferment. Any school that meets the definition of an institution eligible to participate in SFA Programs—whether or not the school is currently participating—is an eligible school for the purpose of

an in-school deferment. However, if a school has never been approved as eligible to participate in any SFA Program, the Department must determine whether the school meets the definition of an eligible institution before the school may certify an in-school deferment. (See Chapter 3 for additional information on institutional eligibility requirements.)

Internship/ residency programs

Borrowers in a residency program in dentistry may receive in-school deferments. Borrowers in **medical** internship or residency programs do not qualify but may qualify for an economic hardship deferment (see below).

Graduate fellowships

A borrower may receive deferments for study in a graduate fellowship program approved by the Department.

Rehabilitation training

Borrowers with disabilities may receive deferments for study in a rehabilitation training program approved by the Department.

Unemployment

A borrower seeking and unable to find full-time employment may obtain a deferment for up to three years. The borrower must submit the deferment request every six months, however, to affirm his or her continuing employment search.

Economic hardship

Borrowers experiencing economic hardship may be eligible for deferments, not to exceed three years, but must submit a deferment request every 12 months to affirm continuing eligibility. Any of the following criteria qualifies a borrower for an economic hardship deferment:

- ◊ The borrower is receiving payment under a federal or state public assistance program.
- ◊ The borrower is working full time and is earning a total monthly gross income that does not exceed the greater of (1) the minimum wage or (2) the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act.
- ◊ The borrower is working full time and has an annual federal education debt burden that is at least 20% of the borrower's adjusted gross income. Defaulted loans are not included in the education debt burden unless the borrower has made satisfactory repayment arrangements (see Section 1). Additionally, the borrower's income minus the educational debt burden must be less than 220% of the greater of (1) the minimum wage rate or (2) the poverty line for a family of two.

- ◊ The borrower is not working full time, and the borrower's total monthly gross income from all sources is less than twice the greater of (1) the minimum wage rate or (2) the poverty line for a family of two. In addition, after deducting the total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of (1) the minimum wage rate or (2) the poverty line for a family of two.

- ◊ The borrower has been granted an economic hardship deferment under the FFEL Program or the Federal Perkins Loan Program for the same period for which the borrower is requesting an economic hardship deferment under the Direct Loan Program.

PLUS borrowers

For Direct PLUS Loan borrowers, it is generally the parent—not the student—who must meet the criteria for deferment. For example, a Direct PLUS Loan borrower can receive an in-school deferment if he or she is enrolled at least half time in an eligible program of study at an eligible school. The parent is not eligible if only the student for whom the parent borrowed meets the requirements. However, as discussed below, a parent with an outstanding FFEL made before July 1, 1993 may also qualify for a deferment when a dependent student for whom the parent borrowed a PLUS Loan is enrolled in school.

Deferments for borrowers with outstanding FFELs— 34 CFR 685.204(d)

If, at the time of application for a Direct Loan, a borrower has an outstanding balance of principal or interest on any FFEL made, insured, or guaranteed before July 1, 1993, the borrower is eligible for additional deferments. The deferments are those available to FFEL borrowers on loans made between July 1, 1987 and June 30, 1993.

One of the additional deferments is for parents who have borrowed for dependent students. A parent qualifies for a deferment under this provision if a dependent student for whom he or she borrowed is still dependent and meets one of the following conditions:

- ◊ The student is attending an eligible school full time.

- ◊ The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.

- ◊ The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.

- ◊ The student is attending an eligible school half time **and** obtains a Federal Stafford Loan or a Direct Loan for the same

enrollment period for which the parent is applying for a deferment. **Note that this requirement differs from FFEL:** Under FFEL, there are additional requirements the student must meet in order for the parent to receive this deferment (see Chapter 10, Section 5.)

The other deferments available to borrowers with outstanding FFELs are

- ◊ serving a required internship or residency;
- ◊ temporarily totally disabled or required to provide full-time care for a disabled dependent;
- ◊ teaching in a designated teacher shortage area;
- ◊ serving in the Armed Forces, Peace Corps, Public Health Service, ACTION, or as a full-time volunteer for a tax-exempt organization;
- ◊ active duty in NOAA Corps;
- ◊ qualifying parental leave; and
- ◊ working mother.

See Chapter 10 for more information on these deferments.

FORBEARANCE

During a period of forbearance, a borrower may stop payments temporarily or make smaller payments than previously scheduled. The Department grants forbearance for a period of up to one year. Forbearance is renewable if the borrower requests it in writing and the Department approves the request.

Although borrowers are relieved of paying principal during forbearance, interest continues to accrue. If the borrower does not pay the accruing interest during the forbearance period, the interest is capitalized after the forbearance ends (see page 11-26 for a discussion of capitalization).

A borrower may receive forbearance if he or she is willing but unable to repay the loan. The borrower must request forbearance and provide

appropriate documentation showing that he or she qualifies. The Department grants forbearance if

- ◊ it determines that due to poor health or other acceptable reasons, the borrower or endorser is currently unable to make scheduled payments;
- ◊ the borrower is in a medical internship or residency or dental residency that must be successfully completed before the borrower may begin professional practice or service, or the borrower is in a medical internship or residency program or dental residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health-care facility that offers postgraduate training;
- ◊ a Direct Subsidized or Unsubsidized Loan borrower is serving in a national service position for which the borrower is receiving a national service educational award under the National Community Service Trust Act of 1993 **(Direct PLUS Loan borrowers are not eligible for this forbearance);** or
- ◊ the borrower's or endorser's monthly payments on federal education loans are equal to or greater than 20% of the borrower's or endorser's total monthly gross income (for not more than three years).

Administrative forbearance

In certain instances, the Department grants forbearance without requiring documentation from the borrower. These circumstances include but are not limited to

- ◊ a properly granted period of deferment for which the Department later learns the borrower did not qualify;
- ◊ a period for which payments are overdue at the beginning of a deferment;
- ◊ the period from the time the borrower entered repayment until the first payment due date was established;
- ◊ the period prior to a borrower's filing a bankruptcy petition;
- ◊ a period after the Department receives reliable information indicating the borrower (or the student in the case of a parent's Direct PLUS Loan) has died or become totally and permanently disabled—until the Department receives documentation verifying those conditions; or

- ◊ a period necessary for the Department to determine a borrower's eligibility for discharge (cancellation) under the bankruptcy, closed school, or false certification provisions (see "Discharge" below).

Under certain circumstances, a borrower may qualify for forbearance without submitting documentation. For example, forbearance may be granted when the effect of a variable interest rate on a repayment schedule extends repayment past the maximum repayment term. A borrower affected by a natural disaster does not have to sign a forbearance agreement but can simply phone his or her Direct Loan Servicing Center to request forbearance.

Borrowers may also receive forbearance due to a national military mobilization but must provide supporting documentation.

The Department may grant forbearance to borrowers whose loans are delinquent or in default.

DISCHARGE

Under certain conditions, all or a portion of a borrower's loan debt may be canceled or "discharged." Discharge provisions apply to death or total and permanent disability, bankruptcy, closed schools, and falsely certified loans. Discharged loans do not count against the borrower's annual or aggregate Direct Subsidized Loan or Direct Unsubsidized Loan limits.

Death and disability

If a borrower dies or becomes totally and permanently disabled, the Department discharges the borrower's and any endorser's obligation to make further loan payments. A Direct PLUS Loan borrower's (or endorser's) debt also will be discharged if the student for whom the parent borrowed dies. The parent (and any endorser) continues to be obligated to repay a Direct PLUS Loan if the student becomes totally and permanently disabled.

A borrower is not considered totally and permanently disabled based on a condition that existed when the borrower applied for the loan, unless the borrower's condition substantially deteriorated after the loan was made.

Bankruptcy

If a borrower's obligation to repay a Direct Loan is discharged in bankruptcy, the Department does not require the borrower to make any further payments on the loan. An SFA loan is **not** dischargeable in bankruptcy, however, unless the debt has been outstanding for at least seven years—excluding any deferment or forbearance periods—or unless the bankruptcy court has determined that repaying the debt would cause the debtor and his or her dependents undue hardship. Note that Direct

PLUS Loan endorsers **are** required to repay a loan that the borrower has discharged in bankruptcy.

Closed school discharge—34 CFR 685.213

Direct Subsidized or Unsubsidized Loans may be discharged if borrowers are unable to complete their programs of study because their schools closed or because the borrowers withdrew not more than 90 days before their schools closed. If one of these conditions applies to the student for whom a parent borrowed a Direct PLUS Loan, the parent's loan will be discharged. The Department discharges the obligation of the Direct Subsidized, Direct Unsubsidized, and Direct PLUS Loan borrower (and any endorser) and reimburses the borrower for any amounts already paid.

False certification/ unauthorized payment discharge—34 CFR 685.214

A Direct Subsidized or Unsubsidized Loan may be discharged if the school falsely certified the borrower's eligibility or made an unauthorized payment. If one of these conditions applies to the student for whom a parent borrowed a Direct PLUS Loan, the parent's loan will be discharged. A school is considered to have falsely certified the loan if it

- ◊ falsely certified that a student had the ability to benefit from its training,
- ◊ signed the borrower's name on the loan application or promissory note without the borrower's authorization, or
- ◊ certified the eligibility of a student who would not meet employment requirements (in the student's state of residence at the time the loan was originated) in the occupation for which the training program was intended. A student would not meet employment requirements because of a physical or mental condition, age, a criminal record, or other reason acceptable to the Department.

A school makes an unauthorized payment if it endorsed the borrower's loan check (or signed the borrower's authorization for Electronic Funds Transfer) without the borrower's authorization, unless the loan proceeds were delivered to the student or applied to charges the student owed the school.

If a borrower meets the requirements for a discharge because of false certification or unauthorized payment, the Department discharges the borrower's and any endorser's obligation to make further loan payments and reimburses the borrower for any amounts already paid. Interest and collection fees, as well as loan principal, will be discharged. The Department may attempt to collect from the school the loan amount discharged, including any refund owed the student.

If otherwise eligible, a borrower whose defaulted loans are discharged under these provisions regains eligibility for SFA funds. In addition, any adverse credit history will be deleted from credit-reporting agencies' records.

The Department returns to the sender (or to the borrower's estate) any payments received after a borrower's loan has been discharged.

Payments after discharge

DEPARTMENT OF DEFENSE REPAYMENT

The Department of Defense (as an enlistment incentive) will repay a portion of a student's Direct Loan if the student serves as an enlisted person in certain specialities in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard. For more information, the student should contact his or her local Army or Air National Guard recruiting office. This benefit does not pertain to an individual's prior military service.

BORROWER DEFENSES

34 CFR 685.206(c)

A borrower may assert a defense against repaying a Direct Loan based on any act or omission by his or her school that would give rise to a cause of action against the school under applicable state law. The borrower may assert the defense in any proceeding to collect on a Direct Loan. Collection proceedings include, but are not limited to, tax-refund offset proceedings, wage garnishment proceedings, salary offset proceedings for federal employees, and credit bureau reporting proceedings.

If the borrower's defense is successful, the Department notifies the borrower in writing that he or she is relieved of the obligation to repay all or part of the loan and associated costs and fees. The Department may give the borrower further relief, as deemed appropriate, based on the borrower's circumstances. Further relief may include but is not limited to

- ◊ reimbursing the borrower for amounts paid toward the loan voluntarily and through enforced collection,
- ◊ determining that the borrower is not in default on the loan and is eligible to receive assistance from SFA funds, and
- ◊ updating information to credit bureaus in cases where the Department had made adverse credit reports about the borrower's Direct Loan.

A successful borrower's defense may result in the Department requiring the school to repay the funds and purchase the loan.

Section 3 Direct Consolidation Loans

Direct Consolidation Loans allow Direct Loan and Federal Family Education Loan (FFEL) borrowers to combine one or more federal education loans and create one Direct Loan with one monthly payment. Borrowers can extend their repayment periods, thereby reducing monthly payments, and the interest rate may be lower.

TYPES OF DIRECT CONSOLIDATION LOANS

There are three types of Direct Consolidation Loans:

- ◊ Direct Subsidized Consolidation Loans,
- ◊ Direct Unsubsidized Consolidation Loans, and
- ◊ Direct PLUS Consolidation Loans.

Subsidized SFA loans can be consolidated into a Direct Subsidized Consolidation Loan. Unsubsidized SFA loans, as well as certain loans authorized under Titles VII and VIII of the Public Health Service Act (administered by the U.S. Department of Health and Human Services), can be consolidated into a Direct Unsubsidized Consolidation Loan. Direct PLUS Loans and Federal PLUS Loans can be combined into one Direct PLUS Consolidation Loan. See the chart on the following page for a list of loans that can be consolidated into each type.

Even if borrowers have loans from more than one loan type, they receive only one Direct Consolidation Loan and make just one monthly payment. However, the Department will track the parts of the Direct Consolidation Loan separately because the type of loan affects interest rates, interest subsidies, and deferment eligibility. (For example, a borrower will not be required to pay interest during a deferment on the subsidized portion of a Direct Consolidation Loan.)

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Federal Education Loans Eligible for Direct Loan Consolidation

Direct Subsidized Consolidation Loans	Direct Unsubsidized Consolidation Loans	Direct PLUS Consolidation Loans
Subsidized Federal Stafford Loans	Unsubsidized Federal Stafford Loans (includes Nonsubsidized Stafford Loans made before 10/1/92)	Federal PLUS Loans
Guaranteed Student Loans (GSL)	Federal Supplemental Loans for Students (SLS)	Parent Loans for Undergraduate Students (PLUS)
Federal Insured Student Loans (FISL)	Unsubsidized Federal Consolidation Loans	Federal Direct PLUS Loans
Federal Direct Stafford/Ford Loans	Federal Direct Unsubsidized Consolidation Loans	Federal Direct PLUS Consolidation Loans
Federal Direct Subsidized Consolidation Loans	Federal Direct Unsubsidized Stafford/Ford Loans	
Federal Perkins Loans	Auxiliary Loans to Assist Students (ALAS)	
National Direct Student Loans (NDSL)	Health Professions Student Loans (HPSL)	
National Defense Student Loans (NDSL)	Health Education Assistance Loans (HEAL)	
Subsidized Federal Consolidation Loans	Nursing Student Loans (NSL)	
	Loans for Disadvantaged Students (LDS)	

Borrowers must consolidate at least one Direct Loan or FFEL[1] but generally are not required to consolidate all their outstanding federal education loans. For example, a borrower may choose not to consolidate a loan with an interest rate lower than a Direct Consolidation Loan's interest rate. A borrower may not, however, exclude SFA loans in default unless he or she has met the requirements for regaining SFA loan eligibility (see Section 2).

Nonfederal loans made by state or private lenders are not eligible for consolidation.

[1] "Consolidating" one loan is generally done so the borrower can receive a lower interest rate or other Direct Loan Program repayment benefit.

LOAN LIMITS

There are no minimum or maximum loan limits that apply to Direct Consolidation Loans. A Direct Consolidation Loan's principal balance equals the sum of the amounts the Department pays to the holders of the loans being consolidated. The Department pays each holder the amount necessary to pay in full the loan being consolidated.

Consolidation does not increase a borrower's aggregate loan limits (see Section 2 for a discussion of loan limits). The aggregate limit for undergraduate and graduate/professional students must include any portion of a Direct Consolidation Loan used to repay a Direct Subsidized or Unsubsidized Loan, a subsidized or unsubsidized Federal Stafford Loan, or a Federal Supplemental Loans for Students (SLS) Loan.

INTEREST RATES

Direct Consolidation Loan interest rates are variable and adjusted annually on July 1. Interest rates are determined on June 1 each year and apply to the following 12-month period from July 1 to June 30.

Subsidized/ Unsubsidized

Currently, there are two formulas for calculating the variable interest rate for Direct Subsidized and Unsubsidized Consolidation Loans:

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are in **in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **2.5** percentage points. The rate for these loans for July 1, 1997 through June 30, 1998 is 7.66%.

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are **not in in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **3.1** percentage points. The maximum interest rate is 8.25%. The rate for these loans for July 1, 1997 through June 30, 1998 is 8.25%. **Note** that this formula also applies to *any* Direct Subsidized and Unsubsidized Consolidation Loan first disbursed before July 1, 1995, in *any* period.

PLUS

Currently, the interest rate for Direct PLUS Consolidation Loans equals the bond equivalent rate of the 52-week Treasury bills auctioned at the final auction before June 1, plus 3.1 percentage points. The maximum interest rate is 9%. The rate for these loans for July 1, 1997 through June 30, 1998 is 8.98%.

Change in interest rate calculations

Beginning July 1, 1998, interest rate calculations change. For Direct Subsidized and Unsubsidized Consolidation Loans first disbursed on or after July 1, 1998, the interest rate will equal the bond equivalent rate of the security with a comparable maturity, that the Department establishes, plus **1** percentage point. The rate will still be determined on June 1 each year and apply to the following 12-month period from July 1 to June 30. The rate will not exceed 8.25%. **This interest rate calculation applies whether or not a loan is in an in-school, grace, or deferment period.** The calculation also applies to Direct PLUS Consolidation Loans first disbursed on or after July 1, 1998, except the rate will equal the bond equivalent rate of the security with a comparable maturity, as established by the Department, plus **2.1** percentage points. The rate will not exceed 9%. Specific information on which securities' bond equivalent rates will be used was not available at the time this Handbook went to print. The Department will issue further guidance on this topic at a later date, in the form of a "Dear Colleague" Letter. When issued, this up-to-date information will also be available on the SFA BBS.

During in-school, grace, and deferment periods, the Department does not charge borrowers interest on Direct Subsidized Consolidation Loans. Interest is charged during forbearance, however. Interest is charged on Direct Unsubsidized Consolidation Loans and Direct PLUS Consolidation Loans during all periods.

Borrowers may pay the interest for which they are responsible during applicable periods or postpone paying it and have the interest capitalized (added to the principal owed). See Section 2 for a discussion of capitalizing interest.

ADDITIONAL BORROWING COSTS

No loan fee charged

Borrowers are not charged a loan fee for consolidating their loans.

Late fees

The Department can charge late fees on all or part of any payments the borrower does not pay within 30 days of the due date. The late charge may not exceed six cents for each dollar of each late installment. **Currently, however, the Department is not charging late fees.**

Collection costs

On a Direct Consolidation Loan **not** in default, the Department may require the borrower or endorser to pay any costs, in excess of routine collection costs, incurred in collecting installments not paid when due. Such charges do not include the routine costs of preparing letters or notices or making local or long-distance telephone calls. An example of a non-routine collection cost is the cost of processing checks returned for insufficient funds. On a Direct Consolidation Loan in default, the Department may require the borrower or any endorser to pay additional costs.

Applying

Borrowers must send a Direct Consolidation Loan application to the Department's Loan Origination Center. A single consolidation application is used, even if the borrower is consolidating more than one type of loan, such as subsidized student loans and unsubsidized student loans or subsidized student loans and PLUS Loans (if the borrower has a loan for his or her dependent student as well as a loan for him- or herself). The publication *Direct Consolidation Loans: A Guide* explains the application process in detail.

Borrowers may add pre-existing eligible loans to a newly created Direct Consolidation Loan without submitting a new application; borrowers simply submit a request to the Department within 180 days after the loan is originated (see "Subsequent Consolidation" on page 11-52).

The two types of consolidation, "regular" and "in-school," are discussed below. Basically, however, borrowers may consolidate loans any time after they are fully disbursed. Note that married borrowers may consolidate jointly. Borrowers in default also are permitted to consolidate under certain circumstances (see page 11-51). Consolidation eligibility criteria vary somewhat depending on when borrowers consolidate and whether they are in default. All Direct Consolidation Loan borrowers, however, receive the same deferment, forbearance, and discharge provisions available to borrowers of other Direct Loans (see Section 2). **Note that a borrower who consolidates a loan that is in deferment must reapply for the deferment once the loan is consolidated.**

Definition of in-school period

Many borrowers consolidate when their loans are no longer in an in-school period, defined as the period before a loan enters the grace period while a borrower is enrolled at least half time at an eligible school. A loan is also considered to be in an in-school period if the borrower entered but never completed the grace period because the borrower reenrolled at least half time at an eligible school before the grace period expired.

Regular Consolidation

Borrowers consolidating at least one fully disbursed Direct Loan or FFEL, none of which is in an in-school period,[2] may consolidate under what is known as the regular Direct Consolidation Loan process. Borrowers may also include other student loans, such as Federal Perkins Loans and eligible health professions student loans (see the chart on page 11-44).

[2]Do not confuse "in-school period" with the borrower's enrollment status. A borrower can be enrolled in an eligible school at least half time and still consolidate under the regular Direct Consolidation Loan process. For example, a borrower who enrolled full time in an eligible school but had two FFELs in repayment before enrolling would qualify under the regular consolidation process. It is the status of the loans being consolidated that must be considered.

(The status of the Direct Loan or FFEL to be consolidated determines whether the borrower has a regular or an in-school consolidation loan.)

Borrowers with no Direct Loans

A borrower with an outstanding FFEL but no outstanding Direct Loan must meet one of two conditions to receive a regular Direct Consolidation Loan: The borrower must be unable to obtain a Federal Consolidation Loan after checking with a lender that makes such loans; **or,** if the borrower is eligible for the Income Contingent Repayment Plan (see Section 2), he or she must be unable to obtain a Federal Consolidation Loan with acceptable income-sensitive repayment terms after checking with a lender that makes Federal Consolidation Loans.

Married borrowers consolidating jointly

For married borrowers who want to consolidate jointly, only **one** borrower must meet the conditions described in the preceding paragraph. Joint consolidators are held jointly and severally liable for their consolidation loan, however. **Both** borrowers must qualify for deferment, forbearance, and discharge, unless a discharge is due to school closure or false certification. In those two cases, only **one** borrower has to qualify; however, only the portion of the Direct Consolidation Loan affected by the school closure or false certification can be discharged.

Nicholas receives two FFELs while attending Asta Institute. Nicholas withdraws from Asta, enrolls in Fribitz Institute, and takes out another FFEL. He and his wife Nora decide to consolidate her Direct Loans and his FFELs into a joint Direct Consolidation Loan. Fribitz closes three months later. Nicholas is eligible to have his FFEL at Fribitz canceled, but he and Nora will continue to be responsible for his other two FFELs that are part of the Direct Consolidation Loan—those loans are unaffected by Fribitz's closure.

TIP: Counsel married borrowers to decide carefully about joint consolidation. If one spouse dies or becomes totally and permanently disabled, for example, the other spouse is responsible for paying the entire consolidation loan. The loan would be discharged for a single borrower in such situations. Each spouse may want to consolidate separately to minimize risk.

Regular consolidation requires that borrowers (**both** borrowers, if married and consolidating jointly) have no federal consolidation loan applications pending with any other lenders (for example, a FFEL Program lender). Also, borrowers must agree to notify the Department of any address change.

No grace period

A regular consolidation loan's repayment period begins the day the first disbursement is made; the first payment is due within 60 days of that date, unless the borrower is in deferment on the consolidation loan. There is no grace period.

Payments to original loan holders

Borrowers in repayment on any loans to be consolidated should continue making payments to their current loan holders until receiving written notice from the Department that it has consolidated their loans. Once the loans are consolidated, any payments a borrower makes to the original holders will be sent to the Department to reduce the Direct Consolidation Loan balance.

In-School Consolidation

In-school consolidation requires borrowers to meet the requirements for regular consolidation, with some exceptions.

Unlike regular consolidation, borrowers eligible for in-school consolidation may consolidate **only** Direct Loans or FFELs; the other types of federal education loans listed in the chart on page 11-44 may be consolidated only after borrowers leave school.

Borrowers attending Direct Loan schools must consolidate at least one fully disbursed Direct Loan or FFEL that is **in an in-school period** (see the definition of in-school period on page 11-47). Borrowers attending non-Direct Loan schools must have a Direct Loan **and** must consolidate a Direct Loan or FFEL that is in an in-school period. (Note that borrowers can qualify simply by consolidating one Direct Loan that is in an in-school period.) Married borrowers who wish to consolidate jointly must **both** have Direct Loans or FFELs in in-school periods. If a married borrower attends a Direct Loan school but the spouse attends a non-Direct Loan school, the spouse must have a Direct Loan and must consolidate a FFEL or Direct Loan in an in-school period. (The spouse can qualify simply by consolidating one Direct Loan that is in an in-school period.)

Borrowers with no Direct Loans who want to consolidate FFELs must be attending Direct Loan schools. (At least one FFEL must be in an in-school period.) Such borrowers do not have to certify that they have been unable to obtain Federal Consolidation Loans—FFEL borrowers currently are not permitted under the Federal Consolidation Loan Program to consolidate a loan in an in-school period.

The examples on the next page show how in-school consolidation works.

IN-SCHOOL CONSOLIDATION EXAMPLES

- Emma is in her third year at Woodhouse College (a Direct Loan school). She is a three-quarter-time student and wants a Direct Consolidation Loan for the two FFELs she received for the previous two years at a different school. The two FFELs have not yet entered repayment. Emma has no Direct Loans at Woodhouse.

  Emma is eligible to receive a Direct Consolidation Loan for her FFELs because she is attending a Direct Loan school and has a fully disbursed FFEL in an in-school period.

- Elizabeth is in her first semester at Bennet University (a Direct Loan school) and is enrolled full time. Elizabeth has three FFELs she received before she transferred to Bennet (these loans are still in an in-school period) and a Direct Loan she has received at Bennet. She will receive the second disbursement of her Direct Loan in her second semester. Elizabeth wants to consolidate all four loans for convenience.

  Elizabeth can receive a Direct Consolidation Loan only for the three FFELs. The Direct Loan cannot be included because it has not been fully disbursed. She may want to apply for consolidation after her Direct Loan is fully disbursed so that all four loans can be consolidated.

- Robert has a Direct Loan he received two years ago at Huntingdon College. He had been repaying that loan before enrolling at Locksley Institute, where he has been attending full time for two years. He has an in-school deferment for his Direct Loan. He received a FFEL for his first year of attendance at Locksley, which does not participate in Direct Loans. He would like to receive a Direct Consolidation Loan for both loans.

  Robert may receive a Direct Consolidation Loan for both loans. He has a Direct Loan (the fact that the loan is not in an in-school period does not matter); and he has a FFEL in an in-school period.

- Diana attended Trundle University her first two years of school but has transferred to National College (a Direct Loan school) and is enrolled less than half time. She has two FFELs she received from Trundle. Diana wants to receive a Direct Consolidation Loan for the FFELs because the interest rate would be more advantageous.

  Diana cannot receive an in-school Direct Consolidation Loan because she does not have at least one Direct Loan or FFEL in an in-school period (her enrollment as a less-than-half-time-student means her loans are not in an in-school period). Diana could qualify for a regular Direct Consolidation Loan if, after checking with a FFEL lender that makes Federal Consolidation Loans, she cannot receive such a loan or cannot receive one with acceptable income-sensitive repayment terms.

- Allen graduated from Hart University with a degree in Biology. He received two FFELs during his attendance. Three months after graduation, he enrolls at Sarven Technical Institute as a three-quarter-time student to pursue a degree in Zoology. Sarven is a Direct Loan school, but he has not taken out a Direct Loan. He would nevertheless like to receive a Direct Consolidation Loan for his FFELs because the repayment terms would be more favorable.

  Allen may receive a Direct Consolidation Loan for his FFELs. The loans are considered to be in an in-school period because Allen has reenrolled in school at least half time after only three months of his grace period have expired.

Grace period

The borrower of an in-school Direct Consolidation Loan receives a six-month grace period on the loan when he or she reduces enrollment to less than half time at an eligible school. If the underlying loan(s) that is in an in-school period enters the grace period after the Direct Consolidation Loan application's submission but before the consolidation loan's first disbursement, borrowers do not have to make payments on the loan for the amount of time remaining in the grace period at the time of the first disbursement.

> On September 1 of his senior year at Gibbs College, a Direct Loan school, Joseph applies for an in-school Direct Consolidation Loan for two FFELs he has received. Two weeks after he applies, he drops below half-time attendance. Joseph has not received his first Direct Consolidation Loan disbursement. He receives the first disbursement in early December. By that time, he has used 2 1/2 months of his grace period. Joseph has 3 1/2 months left in his grace period before he must begin repayment on his Direct Consolidation Loan.

PLUS Loan Consolidation

A parent who wants to consolidate Direct PLUS or Federal PLUS loans must have at least one Direct PLUS Loan or have at least one Federal PLUS Loan and have been unable to obtain a Federal Consolidation Loan.[3] The borrower must pass a credit check or must either document extenuating circumstances or obtain an endorser who can pass a credit check. (See Section 2 for more information on these topics.) If married borrowers are consolidating PLUS loans jointly, only **one** borrower needs to pass a credit check.

Consolidating Defaulted Loans

Generally, defaulted student loans may be consolidated if borrowers agree either to repay the Direct Consolidation Loan under the Income Contingent Repayment Plan or make satisfactory repayment arrangements with the current loan holder.[4] However, the borrower has only **one** option—to make satisfactory repayment arrangements with the current loan holder—in the following two situations:

- The borrower has a defaulted loan and at least one Direct Loan or FFEL in an in-school period and wants an in-school consolidation loan, or
- The borrower wants to consolidate a defaulted PLUS Loan.

[3]A parent borrower is not eligible for a Direct Consolidation Loan based on being unable to obtain a Federal Consolidation Loan with acceptable income-sensitive repayment terms—Direct PLUS Loan borrowers are not eligible for the Income Contingent Repayment Plan.

[4]A borrower with student loans who does not have a Direct Loan must be unable to obtain a Federal Consolidation Loan or be unable to obtain one with acceptable income-sensitive repayment terms.

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Satisfactory repayment

For purposes of consolidating a defaulted Direct Loan, FFEL, or Perkins Loan, satisfactory repayment arrangements are defined as **three** consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation. Borrowers eligible to consolidate defaulted health professions loans must contact the loan holders to determine how a satisfactory repayment arrangement is defined.

Excluding defaulted loans

Borrowers may not exclude a defaulted SFA loan from consolidation unless they have made repayment arrangements satisfactory to **regain SFA eligibility.** For Direct Loans and FFELs, these arrangements are the same as those described above, except borrowers must make **six** payments instead of three. For Perkins Loans, borrowers must repay the loan in full or sign a new repayment agreement and make one payment each month for six consecutive months. Note that regaining SFA eligibility does not apply if only health professions loans are in default.

Collection costs for defaulted loans

For defaulted Direct Loans and FFELs, collection costs up to a maximum of 18.5% of the outstanding principal and interest may be added to the outstanding principal loan balance. For defaulted Perkins Loans and health professions loans, collection costs equal to the amount the borrower owes may be added to the outstanding principal loan balance.

Judgments

In general, a borrower may not consolidate **any** loan on which a judgment has been obtained. For example, a borrower with a judgment on a defaulted Direct Loan, FFEL, or Perkins Loan who makes satisfactory repayment arrangements on the judgment for purposes of regaining SFA eligibility may still not include the judgment in a Direct Consolidation Loan. A borrower with a judgment on a health professions loan who is not in default on any SFA loan may consolidate all loans except the judgment.

Note that borrowers who have judgments on Direct Loans or FFELs but who rehabilitate those loans may include them in a Direct Consolidation Loan. (See Section 4 for a discussion of rehabilitation.) Rehabilitation is **not** an option for Perkins Loans and health professions loans.

SUBSEQUENT CONSOLIDATION

A borrower may add pre-existing eligible loans to a Direct Consolidation Loan within 180 days after the date the Direct Consolidation Loan is made. A pre-existing eligible loan is one fully disbursed before the Direct Consolidation Loan's first disbursement is made. A borrower who listed the pre-existing loan as an outstanding debt on the consolidation application may telephone the Loan Origination Center to request that the loan be added. A borrower who did not list the loan must submit a brief written request that includes the loan information the consolidation application requires.

After the Department verifies the additional loan, the borrower must sign a promissory note for the additional amount before the Department will pay off the holder. The loan disclosure issued when the subsequent consolidation is completed will include the balance of the newly consolidated loan.

If the original Direct Consolidation Loan required an endorser on the PLUS portion of the loan and the borrower is adding a PLUS loan, the same endorser must be used for the added PLUS loan. If an endorser was not originally required but is required for the added PLUS Loan, the endorser must agree to repay the **entire** Direct PLUS Consolidation Loan.

A borrower who wants to consolidate additional eligible loans after 180 days must complete a new Direct Consolidation Loan application.

REPAYMENT

As mentioned earlier, a regular Direct Consolidation Loan's repayment period begins the day the loan is first disbursed. If a Direct Consolidation Loan includes at least one Direct Loan or FFEL that is in an in-school period at the time the Department receives the consolidation application, the repayment period begins the day after the grace period ends.

The first payment on a Direct Consolidation Loan is due within 60 days of the loan's first disbursement, unless a borrower is eligible for a deferment or the loan includes at least one Direct Loan or FFEL in an in-school period and therefore qualifies for a grace period.

Repayment plans

Direct Loan repayment plans and their requirements also apply to Direct Consolidation Loans. See Section 2.

Borrowers may not choose the Income Contingent Repayment Plan for Direct PLUS Consolidation Loans. Borrowers with these loans may have two repayment plans if they want to repay their Direct Subsidized Consolidation Loans and/or Direct Unsubsidized Consolidation Loans under the Income Contingent Repayment Plan.

Repayment period length

The length of a Direct Consolidation Loan repayment period under each plan is the same as for non-consolidated Direct Loans. See Section 2 for a list of the plans' maximum repayment periods.

Section 2, page 11-31, shows the repayment period for the Extended and Graduated repayment plans, based on the borrower's outstanding loan balances. For Direct Consolidation Loans, outstanding balances consist of all the borrower's Direct Consolidation Loans, Direct Loans, and other education loans not made by an individual and not in default (unless satisfactory repayment arrangements have been made [see Section 2]). The

total outstanding balance for the other education loans used to determine an Extended or Graduated repayment period may not exceed the amount of the Direct Consolidation Loan.

Repayment schedule

The Department forwards a repayment schedule to the Direct Consolidation Loan borrower before the first installment payment is due. The schedule presents the borrower's monthly repayment under the repayment plan selected. If a borrower then adds an eligible loan to the consolidation, the Department adjusts the monthly repayment amount (and, if necessary, the repayment period for loans in Graduated or Extended repayment plans).

Switching plans

As is true for Direct Loans, a borrower who decides the repayment plan selected for the Direct Consolidation Loan no longer meets his or her needs can switch plans by calling or writing the Direct Loan Servicing Center—as long as the new plan's maximum repayment period is longer than the period the borrower's loan has already been in repayment.

A borrower who had a defaulted loan and became eligible for a Direct Consolidation Loan by agreeing to repay it under the Income Contingent Repayment (ICR) Plan may switch to a plan other than ICR if he or she

- was required to make, and did make, a payment under ICR in each of the prior three months; or
- was not required to make payments but made three reasonable and affordable payments in each of the prior three months.

In either case, a borrower must call or write the Direct Loan Servicing Center to receive permission to make such a switch.

HOLDER RESPONSIBILITIES

When a borrower wishes to consolidate a FFEL or other non-Direct Loan, the loan holder must certify the loan amount and forward that information to the Department within 10 business days of receiving the Department's request for loan information. A loan holder that is unable to provide the certification must explain the reason in writing to the Department.

The holder must promptly use the Direct Consolidation Loan proceeds received from the Department to discharge fully the borrower's obligation on the loan that has become consolidated.

- If the amount the Department pays exceeds the amount owed, the loan holder must refund the excess to the Department to be credited against the outstanding balance of the Direct Consolidation Loan.

- If the amount the Department pays is insufficient to pay off the loan, the holder must notify the Department in writing of the amount due so that the remainder can be paid.

The holder also is responsible for notifying the borrower that the original loan has been paid in full.

Refunds from schools

If a holder of a loan that was consolidated receives a refund from a school on that loan, the holder must transmit the refund to the Department within 30 days of receipt. The holder must include an explanation of the refund source.

section 4 Default

The first part of this section discusses default's effect on borrowers and actions they can take to regain eligibility for SFA funds. The second part deals with default from the school's perspective and presents information on cohort default rates and the consequences for schools with rates above certain levels.

DEFAULT'S EFFECT ON BORROWERS

If borrowers fail to make any installment payment when due, the loan becomes delinquent. The Direct Loan Servicing Center makes repeated attempts to contact borrowers by telephone and letter, uses skip-tracing techniques and the assistance of other government agencies to locate borrowers if their whereabouts become unknown, and resolves repayment problems with delinquent borrowers to prevent defaults. Borrowers (or endorsers, if applicable) who become delinquent or default may be required to pay collection costs.

Definition of default

Borrowers are in default if the loan becomes 180 days delinquent (or if they fail to meet other terms of the promissory note for 180 days) and the Department concludes they do not intend to honor their obligation to repay.

The Department will "accelerate" a defaulted loan, that is, declare the entire balance and accrued interest immediately due and payable.

Department actions against borrowers who default

The Department may take any action authorized by law to collect a defaulted Direct Loan, including

- filing a lawsuit against the borrower,
- reporting the default to national credit bureaus,
- requesting the Internal Revenue Service to offset the borrower's federal income tax refund, and
- garnishing the borrower's wages.

Before reporting the default to a national credit bureau or assessing collection costs, the Department gives the borrower written notice of its proposed actions, an opportunity to enter into a repayment agreement, and an opportunity for a review of the loan's status. Once the Department notifies a credit bureau of a borrower's default, the credit bureau may provide credit inquirers with that information for up to seven years from the date the loan is first reported as a default or, for a borrower who reenters repayment and again allows the loan to default, up to seven years from the date of the second default.

The Department may designate the Income Contingent Repayment Plan for a borrower who defaults on a Direct Subsidized or Unsubsidized Loan or a Direct Subsidized or Unsubsidized Consolidation Loan. (The Income Contingent Repayment Plan is not available for Direct PLUS Loans and Direct PLUS Consolidation Loans.) Further, a borrower in default cannot receive deferments, except in the limited circumstances described on page 11-34. However, forbearance may be available.

Reinstatement of borrower eligibility

Borrowers in default are ineligible for SFA funds but can take certain actions to have eligibility reinstated. As mentioned in Section 1, a borrower may repay a defaulted loan in full or make satisfactory repayment arrangements, defined as six consecutive, voluntary, on time, full monthly payments that are reasonable and affordable given the borrower's financial situation. "On time" means a payment made within 15 days of the scheduled due date. "Voluntary" payments are those the borrower makes directly, whether or not a judgment exists. Voluntary payments do not include those obtained by income tax offset, garnishment, or income or asset execution. For purposes of regaining eligibility, a student may make satisfactory repayment arrangements on a defaulted Direct Loan only once. For purposes of consolidating a defaulted loan, three payments are required instead of six; generally, a borrower may instead agree to repay the consolidation loan under the Income Contingent Repayment Plan. For more information on consolidating defaulted loans, see Section 3.

If a borrower regains eligibility during an enrollment period (for example, if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period), the borrower regains eligibility for the entire loan period.

Requesting forbearance while in school

A borrower who makes satisfactory repayment arrangements and regains SFA eligibility must continue to make payments on the defaulted loan. (A borrower who is unable to do so while attending school should request forbearance on the loan—as mentioned above, deferment is generally not an option for borrowers in default. See Section 2 for a discussion of forbearance.)

Rehabilitation

If a borrower whose loan is in default makes 12 consecutive, on time, reasonable, and affordable monthly payments under a satisfactory repayment agreement (which may include the six consecutive monthly payments necessary to regain SFA eligibility), the loan is "rehabilitated." In such a case, the Department instructs any credit bureau to which the default was reported to remove the default from the borrower's credit history. The borrower is eligible for SFA funds, and regains eligibility for deferments.

Reaffirmation

A loan on which collection activities have ceased because the Department has not been able to collect is still considered a defaulted loan for purposes of borrower eligibility. A borrower who wishes to borrow again under the Direct Loan Program must "reaffirm" the loan amount and make satisfactory repayment arrangements, as previously described. Because reaffirmation means legal acknowledgment of the loan, the borrower may have to sign a new promissory note or repayment schedule. Reaffirmed loans count toward a borrower's aggregate loan limits (see Section 2 for a discussion of loan limits).

A borrower whose loan obligation is discharged in bankruptcy after the borrower has defaulted is again eligible for SFA Program funds (see Section 1).

Sources of information about a borrower's default

The *Institutional Student Information Record* (ISIR), *Student Aid Report* (SAR), or SAR Information Acknowledgement alerts schools that a borrower is in default on a federal education loan and is not eligible for federal financial aid. If the borrower has made satisfactory repayment arrangements, these documents will indicate the borrower is eligible for a loan but will include a warning that if scheduled payments are not made on the previous loan, future federal student aid will be denied. This information should be reconciled with documentation from the Direct Loan Servicing Center stating that repayment requirements continue to be satisfied. Schools must keep this documentation in the student's file. Once the information is reconciled, the student's eligibility for federal student aid funds can be evaluated.

A borrower's financial history, which includes information about default, results from a data match between the Central Processing System (CPS), which processes data from the *Free Application for Federal Student Aid* (FAFSA), and the National Student Loan Data System (NSLDS). For more information on the NSLDS, see Chapter 2, Section 2.

Because FFEL Program cohort default rates have been a useful measure of institutional performance and an effective means of reducing defaults by removing high default schools from the FFEL Program, the Department has established a similar cohort default rate measurement for the Direct Loan Program. Definitions of "cohort default rate" and "institutional eligibility requirements" for the Direct Loan Program are based on the percentage of a school's former students who default on Direct Loans.

Cohort default rates

Each year, the Department gives schools draft cohort rates along with the Department's *Draft Cohort Default Rate Review Guide*. After schools have reviewed their rates and had a chance to resolve any errors with the Department, the Department publishes the official cohort rates and notifies schools of their rates. A school that does not challenge the data during the draft data review process may not challenge that same data at any other time.

Official cohort rates are based on the number of a school's former students who enter repayment in one fiscal year and default before the end of the next fiscal year. For purposes of a school's Direct Loan cohort rate, a Direct Loan is considered in default when the borrower's (or endorser's) failure to make an installment payment when due persists for 270 days. For non-degree-granting proprietary institutions, a loan is also considered in default if the student has been in repayment under the Income Contingent Repayment Plan for at least 270 days with scheduled payments of less than $15 and less than the monthly interest accruing on the loan.

A student who receives a Direct Loan from one school, later transfers and receives another Direct Loan, and subsequently defaults on both loans will count in **each** school's default rate.

Public, Private Nonprofit, or Proprietary Degree-Granting Schools

For any fiscal year during which **30 or more** current and former students at a school enter repayment on Direct Loans used for attendance at the school (or enter repayment on the portion of a Direct Consolidation Loan used to repay those loans), the Direct Loan Program cohort default rate is the percentage of students who enter repayment in that fiscal year whose loans are in default before the end of the following fiscal year.

The following is an example of how the cohort default rate is calculated for a school with **30 or more** borrowers in repayment.

For any fiscal year in which **fewer than 30** of the school's current or former students enter repayment as described above, the Direct Loan

In FY 1995, 80 current and former Direct Loan borrowers at Bylsma Conservatory entered repayment on their loans. By the end of FY 1996, 20 of those students, or one-fourth, had defaulted. Bylsma Conservatory's FY 1995 cohort default rate is 25%.

The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is

$$\frac{\textit{Number of students who entered repayment in FY } \mathbf{A} \textit{ who default by the end of FY } \mathbf{B} \textit{ (the following FY)}}{\textit{Number of students who entered repayment in FY } \mathbf{A}} \textit{ X 100 percent}$$

Bylsma's default rate is 25% (20/80 X 100 percent = 25%.)

Program cohort default rate is the percentage of those students who

- entered repayment in any of the three most recent fiscal years, and
- whose loans are in default before the end of the fiscal year immediately following the fiscal year in which they entered repayment.

The example below shows how the cohort default rate is calculated for a school with **fewer than 30** borrowers in repayment. Because a cohort default rate calculation was not done for Direct Loans until FY '95, the years in this example will be projected; the principle is the same, however.

Illyria Institute had 15 borrowers who entered repayment in FY 1995; 10 of those defaulted by the end of FY 1996. Illyria had 25 borrowers entering repayment in FY 1996; 5 of those defaulted by the end of FY 1997. Illyria had 20 borrowers entering repayment in FY 1997; 5 of those defaulted by the end of FY 1998. Illyria's FY 1997 cohort default rate would be calculated as follows:

$$\frac{\underset{10}{\text{FY 1995}} + \underset{25}{\text{FY 1996}} + \underset{20}{\text{FY 1997}}}{15 + 25 + 20} \quad \begin{matrix} \\ = 20 \\ = 60 \end{matrix} \quad \textit{X 100 percent}$$

Illyria's default rate is 33.3% (20/60 X 100 percent = 33.3%.)

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A cohort default rate is like a snapshot of the time period affected. Changes that occur after the data for a particular cohort default rate are collected will not affect that default rate calculation. To illustrate, let's take Bylsma Conservatory's FY 1995 cohort default rate. Those students who enter repayment in FY 1995 (10/1/94—9/30/95) and default before the end of FY 1996 (10/1/95—9/30/96) are counted in Bylsma's FY 1995 cohort default rate. Here are examples of three students who attended Bylsma and who subsequently defaulted:

- Anner entered repayment in October 1994 and subsequently defaulted in May 1996. He won $10,000 in a lottery in November 1996 and promptly repaid his loan in full. Nevertheless, Anner will continue to be counted as being in default in Bylsma's FY 1995 cohort default rate calculation.

- Olivia defaulted in July 1996 but made satisfactory arrangements to repay her loan in December 1996. For purposes of calculating Bylsma's FY 1995 cohort default rate, Olivia continues to be counted as in default.

- Jesse made payments on a loan that entered repayment in FY 1995. In spring 1996, Jesse lost his job; unable to find another, he defaulted on his loan in November 1996. Because Jesse's default occurred after the FY 1995 cohort default rate calculation period ended (after September 30, 1996), his loan was reported only as being in repayment. Jesse's loan is not counted as a default in *any* fiscal year's cohort default rate calculation.

Proprietary Non-Degree-Granting Schools

For any fiscal year during which **30 or more** current and former students at the school enter repayment as described on page 11-60, the Direct Loan Program cohort default rate is the percentage of those students

- who enter repayment in that fiscal year whose loans are in default before the end of the following fiscal year, or

- who, before the end of that following fiscal year, have for 270 days been in repayment under the Income Contingent Repayment Plan, with scheduled payments that are less than $15 a month and less than the interest accruing on the loan.

The following is an example of how the cohort default rate is calculated for a non-degree-granting proprietary school with **30 or more** borrowers in repayment.

> In FY 1995, 80 current and former Direct Loan borrowers at Guerrero Technical Institute entered repayment on their loans. By the end of FY 1996, 20 of those students, or one-fourth, had defaulted. In addition, 8 of those students were repaying loans under the ICR plan and had the low payments described above for 270 days.
>
> The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is
>
> $$\frac{\text{Number of students who entered repayment in FY } \mathbf{A} \text{ who default by the end of FY } \mathbf{B} \text{ (the following FY)} + \text{Number of students who entered repayment in FY } \mathbf{A} \text{ who had specified low ICR payments for 270 days}}{\text{Number of students who entered repayment in FY } \mathbf{A}} \times 100 \text{ percent}$$
>
> Guerrero's default rate is 35% (20+8/80 X 100 percent = 35%.)

For any fiscal year in which **fewer than 30** of the school's current or former students enter repayment as described previously, the Direct Loan Program cohort default rate is the percentage of those students

- who entered repayment in the three most recent fiscal years whose loans are in default before the end of the fiscal year immediately following the year in which they entered repayment, or
- who, before the end of that following fiscal year, have for 270 days been in repayment under the Income Contingent Repayment Plan, with scheduled payments that are less than $15 a month and less than the interest accruing on the loan.

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The example below shows how the cohort default rate is calculated for a non-degree-granting proprietary school with **fewer than 30** borrowers in repayment.

> Benoit Institute had 15 borrowers who entered repayment in FY 1995; 10 of those defaulted by the end of FY 1996, and 3 had the low ICR payments described above for 270 days. Benoit had 25 borrowers entering repayment in FY 1996; 5 of those defaulted by the end of FY 1997, and none had low ICR payments. Benoit had 20 borrowers entering repayment in FY 1997; 5 of those defaulted by the end of FY 1998, and 1 had the low ICR payments. Benoit's FY 1997 cohort default rate would be calculated as follows:
>
> $$\frac{\text{FY 1995: } 10+3}{15} + \frac{\text{FY 1996: } 5+0}{25} + \frac{\text{FY 1997: } 5+1}{20} = \frac{24}{60} \times 100 \text{ percent}$$
>
> Benoit's default rate is 40% (24/60 X 100 percent = 40%.)

Weighted Average Cohort Rate (Dual-Program Cohort Rate)

If there are both FFELs and Direct Loans entering repayment in the school's cohort, the Department calculates a **weighted average cohort rate,** also known as a **dual-program cohort rate.** The Department bases this rate on the number of borrowers, not the number of loans. For example, if a borrower enters repayment on both FFELs and Direct Loans in the same cohort, the student will be counted only once in the calculation used to determine the cohort default rate. A summary of borrowers included in the types of cohort default rates is presented below.

Type of School	Type of Rate	Defaulted Borrowers	ICR Component
Public, private non-profit, and degree-granting proprietary institutions	• Direct Loan Program Cohort Rate	Yes	No
	• Weighted Average Cohort Rate	Yes	No
Non-degree-granting proprietary institutions	• Direct Loan Program Cohort Rate	Yes	Yes
	• Weighted Average Cohort Rate	Yes	Yes

Once the number of borrowers in the cohort is determined, the calculation of the weighted average is similar to the calculation of the Direct Loan Program cohort default rate just described.

Cohort Default Rates for Schools that Change Status

Default reduction measures apply to **all** divisions and locations of a school. If a school changes its status (by branching, consolidating, or changing ownership, for example) the Department will track and impose

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Appeal Procedures for Schools with High Official Cohort Default Rates

The type of default rate appeal a school may submit varies depending on the school's default rate category. Schools must follow the appeal time frames and standards set forth in the *FY 1995 Official Cohort Default Rate Guide*, or they will be prohibited from challenging their default rates.

Schools subject to loss of Direct Loan eligibility (those schools with cohort default rates of 25% or greater for the three most recent fiscal years) may appeal on the basis of erroneous data or exceptional mitigating circumstances. Schools subject to loss of all SFA eligibility (those schools with default rates above 40%) may appeal only on the basis that the default rate is not the final rate determined by the Department and that the correct rate would be less than 40%.

Erroneous Data

A school may appeal on the grounds that the calculated default rate is not accurate for any of the three fiscal years used to determine the end of the school's participation in Direct Loans, and that if the Department recalculated using corrected data, the rate would be less than 25% for any of the three relevant fiscal years. A school must submit an appeal, in writing, to the Department no later than the 30th calendar day following the date the school receives notification of the end of its Direct Loan participation. A school cannot use alleged errors in the draft cohort default rate that were not challenged in the draft review process as a basis for an appeal.

Exceptional Mitigating Circumstances

A school may appeal under one (or both) of the exceptional mitigating circumstances that the Department recognizes would make the school's loss of eligibility inequitable (see below). An appeal submitted based on these circumstances must contain an attestation from an independent auditor that the statements the school's management makes in the appeal are complete, accurate, and determined in accordance with applicable regulations. The appeal also must contain a certification, under penalty of perjury, by the school's chief executive officer that all the information the school provides to support its appeal is correct.

Participation rate index equal to or less than 0.0375

The participation rate index criterion is based on a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate and the percent of the school's regular students enrolled on at least a half-time basis who borrow under the Direct Loan Program. The rate is calculated by multiplying the school's FFEL Program cohort default

rate, Direct Loan Program cohort rate, or weighted average cohort rate by the percent of the school's regular students enrolled at least half time who borrowed under the Direct Loan Program during a 12-month period that ended during the six months immediately preceding the fiscal year used to determine the cohort of borrowers for the school's rate. If this product is less than or equal to 0.0375, the school would meet the exceptional mitigating circumstance criterion.

A school may use the participation rate index criterion only if it has a FFEL Program cohort rate, a Direct Loan Program cohort rate or, if applicable, a weighted average cohort rate of less than 40% for the most recent fiscal year.

Economically disadvantaged background rate

To be eligible under the economically disadvantaged background rate, a school must demonstrate that it **successfully** serves students from economically disadvantaged backgrounds. The school must meet the following requirements:

- ◊ at least 70% of its regular students are from disadvantaged economic backgrounds, for a 12-month period that ended during the 6 months immediately preceding the fiscal year used to determine the cohort of borrowers for the school's rate.

  Note that "disadvantaged" is defined as an Expected Family Contribution (EFC) of 0 for the award year coinciding with the same 12-month period just described, or is defined as an adjusted gross income (AGI) of the student and the student's parents or spouse, if applicable, that is less than the poverty level as determined by the U.S. Department of Health and Human Services.

- ◊ at least 70% of a degree-granting school's students who were initially enrolled as full time and who were scheduled to complete their programs within the same 12-month period described previously, do complete their programs, transfer to higher level educational programs, or remain enrolled and are making satisfactory academic progress at the end of the 12-month period; and

- ◊ a non-degree-granting school had a placement rate of 50% or more with respect to its former regular students who remained in the program beyond the point the students would have received a 100% tuition refund from the institution. This rate is based on the number of students initially enrolled at least half time who were scheduled to complete their program within the same 12-month period the school has chosen to determine the percentage of students that come from disadvantaged economic

can lose its eligibility for the Direct Loan Program on the basis of a high FFEL Program cohort default rate. A school ceases to be eligible to participate in Direct Loans beginning 30 days from the date it receives notice of its loss of eligibility, unless it successfully appeals the loss of eligibility on the basis of erroneous data or exceptional mitigating circumstances.

The Department places an ineligible school on the reimbursement system of payment until the 30th day following the date the school receives notification of its eligibility loss or, if the school appeals, until the appeal is decided. The Department removes a school from reimbursement if the school's appeal is successful. If the appeal is denied, the school is not eligible to participate in the Direct Loan Program for the remainder of the current fiscal year plus the following two fiscal years.

A school that loses eligibility must immediately inform all current and potential students and must make clear that they cannot receive Direct Loans or FFELs for attendance at the school. However, students who receive a first disbursement on a Direct Loan or FFEL before the school loses eligibility may receive subsequent disbursements on those loans. Students attending the school remain eligible for in-school deferments.

Schools not subject to loss of eligibility

Historically black colleges and universities (HBCUs), community colleges that Native American nations control ("tribally controlled"), and Navajo community colleges will not lose Direct Loan Program eligibility because of default rates greater than 25% for the three most recent fiscal years for which data are available. This exemption for these schools extends to July 1, 1998.

To remain eligible to participate in the Direct Loan Program, strict standards must be met for appeals, as explained below. More comprehensive information is provided in the Department's official cohort default rate notification letter and the *FY 1995 Official Cohort Default Rate Guide*. Schools must keep the official default-rate notification letter for program review and audit purposes.

Cohort default rates that exceed 40%

The Department may take LS&T action against a school's participation in **all** SFA Programs if the school has a Direct Loan Program cohort rate—or, if applicable, a weighted average cohort rate—greater than 40% for a fiscal year. A school's only acceptable defense against such an LS&T action is that the rate is not final. If a hearing officer determines that the cohort default rate on which the proposed LS&T action is based is not the final rate as determined by the Department and that the correct rate would be less than 40%, the LS&T sanction will not be imposed.

appropriate consequences for cohort default rates for fiscal years both before and after the change in status.

If a location becomes a free-standing school:

A school that is a location of a proprietary vocational or vocational postsecondary school and that is seeking institutional eligibility in its own right, is required to operate independently from its former "parent" school for at least two years before it is eligible to participate in SFA Programs.

If a school changes ownership:

If the new owner applies for eligibility to participate in the SFA Programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in SFA Programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA Program or may be granted provisional certification on the basis of current cohort default rates.

The Department is required by law to use procedures that prevent a school from evading the application of a cohort default rate determination through such measures as branching, consolidation, change of ownership or control, or other similar device. Specific information on how cohort default rates for prior fiscal years are used for eligibility determinations following a change in status for a school was not available at the time this Handbook went to print. The Department will issue further guidance on this topic in the form of "Dear Colleague" Letters. When issued, this up-to-date information will also be available on the SFA BBS.

Consequences Associated with Official Cohort Default Rates Above Certain Thresholds

When the Department sends schools their official cohort default rates, it will include a warning for schools with rates above 20% that they are in danger of facing sanctions.

Cohort default rates of 25% or greater for three consecutive years

If a school has a combination of a FFEL Program cohort default rate, Direct Loan Program cohort rate, or weighted average cohort rate of 25% or greater for the three most recent consecutive fiscal years for which data are available, the school loses its eligibility to participate in the Direct Loan Program and is subject to Limitation, Suspension, and Termination (LS&T) action against participating in the FFEL Program. A school also

backgrounds. The rate does not include students still enrolled and making satisfactory academic progress. Students may be counted as employed only if, on the date following 12 months after the date of their last day of attendance, they are employed, or have been employed, for 13 weeks in an occupation for which the school provided training.

The Secretary issues a decision on a school's appeal within 45 calendar days after the school submits the complete appeal.

Schools should direct questions about cohort rates, the draft review process, or the appeals process to the Department's Default Management Division:

U.S. Department of Education
Default Management Division
Portals Building, Suite 6211
600 Independence Avenue, SW
Washington, DC 20202-5353
202-708-9396

section 5 School Responsibilities

Institutional responsibilities under the Direct Loan Program largely, but not entirely, focus on the items basic to "booking" a loan (the loan origination record, promissory note, and disbursement record). Responsibilities and procedures associated with these items vary depending on the school's origination level. Origination levels, their corresponding functions, and procedures for requesting and maintaining Direct Loan funds are covered in the Department's *Direct Loan School Guide*. For information applicable to all schools on requesting and maintaining SFA funds, see Chapter 3.

To help schools understand other requirements and procedures necessary to administer the Direct Loan Program, the Department provides Direct Loan publications in addition to the *Direct Loan School Guide* and conducts training with accompanying written materials. Information includes the *Reconciliation Guide for Direct Loans*, user's guides on the Department's Electronic Data Exchange (EDE) and EDExpress software, and trainee guides for the Department's Direct Loan and EDExpress workshops. This section will not repeat information covered in these materials but will focus on schools' other Direct Loan responsibilities. For a broad discussion of institutional responsibilities, see Chapter 3.

DETERMINING THE LOAN PERIOD

The period of enrollment or loan period is the period for which the Direct Loan is intended. This period must coincide with one or more of a school's academic terms (such as academic year, semester, trimester, or quarter) for schools that use terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year. The cost of attendance, estimated financial assistance, and Expected Family Contribution must relate to the loan period.

The **minimum** period for which a school may originate a loan is

- ◊ at a credit-hour school using standard terms (semesters, trimesters, or quarters), a single academic term, or
- ◊ at a clock-hour school or a credit-hour school using nonstandard terms or no terms, the **shortest** of the following three periods:
  - the academic year, as defined by the school in accordance with the General Provisions regulations,
  - the length of the student's program at the school, or
  - the remaining portion of the student's program that exceeds the school's academic year.

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period.

Summer sessions overlapping award years

If a summer school session overlaps two award years (that is, begins before July 1 and ends on or after July 1), the financial aid administrator can decide to which of the two award years the loan period will apply. This is the **only** case in which a financial aid administrator has such discretion. If a student in a summer school session that overlaps two award years is also receiving campus-based aid (a Federal Perkins Loan, a Federal Supplemental Educational Opportunity Grant [FSEOG], or Federal Work-Study [FWS]), both the Direct Loan and the campus-based aid must apply to the same award year.

If a student's Direct Loan is originated after an enrollment period begins, the loan may retroactively cover the entire enrollment period, as long as that period does not exceed the maximum loan period allowed. For example, suppose a school's academic term begins on September 6 and runs through December 20. A student admitted to a program contingent on the school's receiving an acceptable academic transcript from a previous school begins the academic term on September 6. The school receives the transcript on October 15. The school may originate the loan for the full enrollment period (September 6 through December 20). If the student plans on enrolling for the subsequent term and that term is part of the same academic year as the first term, the school may originate the loan to cover the period from September 6 to the end of the second term.

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If a school charges a student tuition and fees at the beginning of a program that is longer than an academic year, the cost of attendance for the Direct Loan Program should include the full amount of the tuition and fees charged in the **enrollment period** in which the loan is made. For example, suppose a school with a 1,350-clock hour program defines its academic year as 900 clock hours and charges each student the full $3,000 in tuition and fees at the beginning of the program. An enrolling student may receive two Direct Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The tuition and fees component of the cost of attendance for the first Direct Loan is $3,000; there is no tuition and fees component in the cost of attendance for the second Direct Loan. Also, the second loan must be prorated because the remainder of the program (450 hours) is shorter than the school's academic year. See page 11-19 for more information on loan proration.

Charging tuition and fees at the start of a program longer than an academic year

DISBURSEMENTS

Before disbursement, schools must take certain steps:

- ◊ The school or the Department's Loan Origination Center, depending on the school's origination level, must have a completed, signed promissory note from the borrower.

- ◊ The school must confirm the borrower's eligibility (see Section 1).

- ◊ If a student has received financial aid from another school, the financial aid administrator must request a financial aid transcript from the other school(s) or use National Student Loan Data System (NSLDS) information to ensure the student is not in default on an SFA loan and does not owe a repayment on an SFA grant. Schools also must determine the borrower's outstanding Direct Loan/FFEL balance to determine remaining eligibility. See Chapter 2, Section 2 for information on financial aid transcripts and NSLDS.

- ◊ The cash management regulations state that schools must notify students not only of the amount of SFA funds the students can expect to receive but also the amount that **parents** can expect to receive. The notice must also specify how and when students' and parents' expected SFA funds will be disbursed. If those funds include Direct Loans, schools must delineate in the notice which Direct Loan funds are subsidized and which are unsubsidized. For additional school notification requirements, see page 11-77.

Notification of funds student AND parent will receive

Cash management regulations

For a detailed discussion of cash management regulations, including the general definition of "payment period," see Chapter 3. The discussion here covers disbursement provisions affecting Direct Loans.

Definition of disbursement

SFA funds are considered disbursed when a school credits a student's account or pays a student or parent directly, either from SFA funds received from the Department or from school funds labeled as SFA funds before any SFA funds are received. Note that there are certain limitations on how early disbursements can be made that may affect whether a payment is considered a disbursement (see page 11-75).

Number of Disbursements

Standard term credit-hour

If a school's program uses standard academic terms (semester, trimester, or quarter) and measures progress in credit hours, the term is the payment period, and disbursements are made as follows:

- ◊ If there is only one term, a school disburses a Direct Loan in equal amounts at the beginning of the term and at the term's calendar midpoint. If the loan period equals one payment period and more than half the payment period has elapsed, schools may include in the disbursement the loan proceeds for the entire payment period.

- ◊ If there is more than one term, schools must disburse funds over **all terms** of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three equal payments, one per quarter. Previously, quarter-based schools could have disbursed loan funds for all three quarters in two disbursements. If one or more payment periods have elapsed before a school makes a disbursement, the school may include in the disbursement the loan proceeds for the completed payment periods.

Clock hours/ nonstandard terms/ nonterm

If a school's program measures progress in clock hours or in credit hours without using standard terms, disbursements are made as follows:

- ◊ A school disburses a Direct Loan in equal amounts. The school makes the first disbursement at the beginning of the loan period. The second disbursement may not be made, however, until the **later** of

  - the calendar midpoint between the first and last scheduled days of class of the loan period, or

  - the date (determined by the school) that the student has completed half the academic coursework (for credit hour

schools) or half the clock hours (for clock hour schools) in the loan period.

- If the calendar midpoint of the loan period has passed and the borrower has completed one-half the credit hours or clock hours in the loan period before the school makes any disbursement, the school may disburse the loan in a single installment.

Timing of Disbursements

As discussed earlier, generally an SFA disbursement occurs when a school credits a student's account or pays a student or parent directly, either from SFA funds received from the Department or from school funds labeled as SFA funds before any SFA funds are received. Schools may make the first Direct Loan disbursement 10 days before the first day of classes, except for first-time, first-year undergraduates. In these cases, schools must wait until 30 days after the first day of the student's scheduled classes. A standard-term credit hour school can make a second or subsequent disbursement 10 days before the first day of classes of any subsequent term. Second disbursements for clock hour or nonstandard-term credit hour schools are described on the previous page.

If a school pays the student (either directly or by crediting the student's account) with institutional funds more than 10 days before the first day of classes, the disbursement is considered to have occurred on the 10th day before the first day of classes. Similarly, if a school pays a first-time, first-year, undergraduate borrower with institutional funds earlier than 30 days after classes start, the disbursement is considered to have occurred on the 30th day after classes start.

If a school makes a credit and indicates on the account that the credit is a Direct Loan, the school has made a Direct Loan disbursement, as long as the timing of the credit is within the relevant periods discussed above. If a school makes a memo entry for billing purposes and does not identify it as a Direct Loan credit, the school did not make a Direct Loan disbursement.

Delay in attendance

If a student delays attending school, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

Student temporarily drops below half-time status

If a student temporarily ceases to be enrolled at least half time before any Direct Loan funds are disbursed, the school may still make a first disbursement (and subsequent disbursement) if the student resumes enrollment at least half time. The school must review the student's cost of attendance, revising it as necessary to ensure the student still qualifies for the entire Direct Loan amount even though the cost of attendance may be lower. The school must document this review in the student's file.

Student no longer enrolled

If a student becomes ineligible for Direct Loans because he or she is no longer enrolled as at least a half time student for the loan period, the school may still make a disbursement to that student. Certain conditions must be met:

- ◊ The student incurred costs for the period in which the student was enrolled and was eligible.
- ◊ If the student was a first-year, first-time borrower, he or she must have completed the first 30 days of the program of study.
- ◊ The school must have a SAR or ISIR with an official EFC for the student.
- ◊ The school must have created a complete, electronic loan origination record while the student was enrolled and eligible.

The school must make the late disbursement no later than 90 days after the date the student becomes ineligible. Note: The November 29, 1996 cash management regulations provide that schools are no longer required to document exceptional circumstances in the student's file for any late disbursements made from 61 to 90 days after the student stopped attending. For a discussion of late disbursements, see Chapter 3.

The school cannot make a late second or subsequent Direct Subsidized or Direct Unsubsidized Loan disbursement unless the student has graduated or successfully completed the enrollment period for which the loan was intended.

Additional Disbursement Requirements

Written authorization

As specified in the promissory note, a school may apply Direct Loan proceeds to the student's account without the borrower's written authorization or acknowledgment. However, if a school applies payment to charges other than current tuition, fees, and room and board, the borrower must provide written authorization. See Chapter 3 for more information.

Crediting funds to student account

A school that credits its students' accounts with Direct Loan funds must post those funds directly to the account for tuition and fees and room and board (if the student contracts with the school for room and board). As noted above, with the borrower's written authorization, the school may credit funds to the student's account for cost of attendance charges other than current tuition, fees, and room and board. A school that disburses Direct Loan funds by crediting the student's school account must use those funds for outstanding current and authorized charges before disbursing any funds directly to the student.

Credit balance paid to student or parent

If a school applies SFA funds to a student account and determines that those funds exceed allowable charges, the school must pay the student or parent the excess within 14 days of one of the following events, whichever is **latest:**

- ◊ the date the balance occurs,
- ◊ the first day of classes of the enrollment period, or
- ◊ the date the borrower rescinds his or her authorization for the school to hold funds or use the excess funds to cover other expenses.

Excess PLUS funds

If a student's account shows a credit balance and a Direct PLUS Loan has been credited to the account, the school must distribute the excess PLUS funds to the parent borrower, unless the parent has provided written authorization allowing the school to give the funds to the student.

Correspondence study

A school that offers courses of study by correspondence and that wishes to disburse Direct Loans must establish a lessons submission schedule and give that schedule to prospective students before they enroll. The course schedule must include

- ◊ a due date for each course lesson,
- ◊ if available, a description of any options for altering the sequence of lesson submissions,
- ◊ the course completion date, and
- ◊ the date that resident training must begin, its location, and the time frame for completing the resident training.

Disbursement notification

Schools must notify students or parents electronically or in writing when crediting the student's account with Direct Loan funds. Schools must send the notice **no earlier than 30 days before, and no later than 30 days after,** crediting the student's account. Schools must provide in the notice

- ◊ the date and amount of the disbursement,
- ◊ the borrower's right to cancel all or a portion of the loan or loan disbursement, and
- ◊ the procedures and time by which the borrower must notify the school that he or she wishes to cancel.

A school that sends the notice electronically must require the borrower to confirm receipt and must keep a copy of the confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a "return receipt" message and keep a copy of the receipt on file.

Disbursement cancellation notification

Borrowers who wish to cancel all or a portion of a Direct Loan must notify the school. The school must honor the request if it is received no later than

- ◊ 14 days after the date the school sends the notice that it is crediting the borrower's account, or
- ◊ the first day of the payment period, if the schools sends the notice more than 14 days before the first day of the payment period.

Reporting disbursement information

Schools must report required information on actual disbursements, disbursement cancellations, and disbursement adjustments—within 30 days after these occur—to the Loan Origination Center. For information on these procedures, including how to handle excess cash, see the *Direct Loan School Guide*. For information on the reconciliation process, see the *Reconciliation Guide for Direct Loans*.

Returning funds after disbursement—34 CFR 685.303(b)(3)

If, after making a Direct Loan disbursement, a school determines that a student withdrew or was expelled before the first day of classes for the loan period or failed to attend school during that period, the school must return to the Department any loan proceeds credited to the student's account within 30 days of the date established for the student's withdrawal.[1] If the school disbursed loan proceeds directly to the student, the school also must return any payments the student made to the school, to the extent that no payments exceed the amount of loan proceeds the school disbursed to the student.

34 CFR 685.211(d)

If a school disbursed loan proceeds directly to a student who, without the school's knowledge, provided false information or took actions to cause the borrower to be ineligible for the loan, the student must repay all or part of those proceeds, as appropriate.

[1]To establish a student's withdrawal date, schools must follow the procedures in Chapter 3. Note that for a student who does not return for the next scheduled term following a summer break, a school must determine the student's withdrawal date no later than 30 days after the next scheduled term starts.

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Counseling Borrowers

Schools participating in the Direct Loan Program are required by law to provide entrance and exit loan counseling. Exit counseling is for all student borrowers; entrance counseling is only for first-time student borrowers. A first-time borrower is someone who has not previously received a Direct Subsidized Loan, Direct Unsubsidized Loan, Federal Stafford Loan, Federal Unsubsidized Stafford Loan, or Federal SLS Loan. A school must maintain documentation in each student borrower's file substantiating the school's compliance with entrance and exit counseling regulations. Note that loan counseling requirements do not apply to parent borrowers.

This section offers an overview of counseling responsibilities. To help schools provide complete and effective counseling, the Direct Loan Program offers entrance and exit counseling guides for counselors and borrowers, plus companion videos. Schools receive annually an order form for these materials.

Entrance Counseling

Schools must conduct entrance counseling before making the first disbursement of a Direct Subsidized or Unsubsidized Loan, unless the student is enrolled in a correspondence program—or a study-abroad program—approved for credit at the home school. In these cases, the home school must mail the borrower written counseling materials before disbursing the loan proceeds.

Counseling may be conducted in person, by videotape presentation, or by computer-assisted technology. In each case, a person knowledgeable about SFA Programs must be available to answer borrowers' questions after the counseling session.

Although each school and each student's situation is different, the following suggestions may be useful for presenting entrance counseling's required information.

- ◊ **Schools must emphasize to students the seriousness and importance of the repayment obligation they are assuming.** Schools should advise students to read carefully the loan application, the disclosure statement, and the promissory note containing the borrowers' rights and responsibilities before signing any of these documents. Because a student loan is usually the borrower's first loan, schools should explain clearly

the basic terminology to ensure that borrowers are fully aware of their obligations.

◊ Schools should mention that a borrower's **exact** repayment schedule will not be provided until loan repayment begins. Although the disclosure statement and the promissory note contain the loan's total dollar amount, including the interest rate and fees, these documents do not necessarily specify each payment amount or the payment frequency. Schools should remind students that certain fees will be subtracted from the loan amount **before** the loan is disbursed but that repayment of the **full** loan amount is required. Schools should emphasize that loan repayment is required even if the program is not completed or does not meet the borrower's expectations. This is a point at which schools could explain their refund policy, so that students know that if they leave school (for whatever reason), a portion of their loan disbursement **may** be returned to the Department.

Keeping Direct Loan Servicing Center informed

◊ Schools also should explain to borrowers that they must inform their Direct Loan Servicing Center if they

- fail to enroll in school for the period for which the loan was intended,
- change schools,
- change their name or address (including changing their permanent address while in school),
- graduate or withdraw from school,
- wish to apply for a deferment,
- wish to request forbearance, or
- are having difficulty repaying the loan.

◊ **Schools must describe in forceful terms the likely consequences of default, including adverse credit reports, wage garnishment, and litigation.** For information on default's effect on borrowers, see Section 4.

◊ **Schools must provide information about average indebtedness.** Schools are required to provide each borrower with general information about the average indebtedness of students who obtained Direct Subsidized or Direct

Unsubsidized Loans for attendance at the school or in a borrower's program of study.

- **Schools must inform the student about the average anticipated monthly repayment based on the average indebtedness.**

Borrowers should be told the financial aid office is there to help if they have questions about their Direct Loans. In addition, borrowers should be informed they also can get help by calling the Direct Loan Servicing Center.

Because many students leave school before the scheduled end of their academic programs, aid administrators should emphasize during entrance counseling that borrowers are obligated to attend exit counseling before they cease to be enrolled at least half time.

Alternative approach

Schools may adopt alternative approaches for entrance counseling as part of the schools' quality assurance plans, described in section 685.300(b)(9) of the Direct Loan Program regulations. Schools adopting an alternative approach need not meet all the entrance counseling requirements described above, unless the Department determines that a school's approach is inadequate. Schools using an alternative approach must

- ensure that each first-time borrower is given written counseling materials containing the required information on the previous pages and in Direct Loan regulations;
- target those students most likely to default and provide them with more intensive counseling and support services; and
- include performance measures with objective outcomes demonstrating the alternative approach's effectiveness, such as levels of borrowing, default rates, and withdrawal rates.

Exit Counseling

Schools must conduct **in-person** exit counseling for Direct Subsidized or Direct Unsubsidized Loan borrowers shortly before they cease at-least-half-time study, **except**

- in the case of a correspondence program, schools must mail borrowers written counseling materials within 30 days after the borrowers complete the program; and
- if borrowers withdraw without a school's prior knowledge or fail to attend exit counseling sessions as scheduled, schools

must mail written counseling materials to the borrowers' last known addresses within 30 days after learning the borrowers have withdrawn or failed to attend the scheduled session.

When sending exit counseling materials, return receipts are not required. However, schools should maintain documentation in borrowers' files verifying compliance with the regulatory counseling requirements. If borrowers fail to provide a name, address, references, or an employer and employer address, schools are not required to take further action.

Much of the same material presented at the entrance counseling session will be presented during exit counseling. For example, schools must inform borrowers about the seriousness and importance of their repayment obligation and describe in forceful terms the likely consequences of default (see Section 4). The emphasis for exit counseling shifts, however, to loan repayment obligations and debt management strategies. At the exit counseling session, the following points must also be covered:

- **Schools must inform borrowers of the average anticipated monthly repayment amount based on their indebtedness.** This information permits borrowers to begin short- and long-term financial planning.

- **Schools must review borrowers' available repayment options (the Standard Repayment, Extended Repayment, Graduated Repayment, and Income Contingent Repayment plans and loan consolidation).** Schools should explain that all Direct Loans must be repaid under the same repayment plan, except that borrowers with Direct PLUS Loans or Direct PLUS Consolidation Loans may repay those loans separately. Section 2 describes available repayment options; Section 3 covers loan consolidation.

- **Schools must provide debt management strategies that would facilitate repayment.** Schools should encourage borrowers to avoid excessive debt whenever possible. Borrowers should try to spend no more than 5 to 15% of their net income for monthly payments on student loans and consumer debts, including credit card and car payments. Borrowers using more than 15% of their monthly net income for these payments may need to make some budget adjustments.

- **Schools must explain to borrowers how to contact the Direct Loan Servicing Center.** The Direct Loan Servicing Center maintains toll-free telephone numbers and special mailing addresses to answer borrower inquiries. This information is in

the Direct Loan Program entrance and exit loan counseling guides; the phone numbers are also provided in Chapter 1 and on the inside front cover of this handbook.

- **Schools must review with borrowers deferment and discharge conditions.** Schools should inform borrowers that they can postpone loan payments by applying, and receiving approval, for a deferment or a forbearance through the Direct Loan Servicing Center. Section 2 describes deferments and forbearances.

- **Schools must require borrowers to correct school records concerning name, address, address of the borrower's next of kin, Social Security Number, references, driver's license number and the state where it was issued, and the name and address of the borrower's expected employer (if known).** Within 60 days after exit counseling, schools must provide the Direct Loan Servicing Center with any corrections to the name, latest known address, employer and employer address, and address of the borrower's next of kin. **(This latter item is a statutory requirement, although it is not yet in the regulations.)**

Verification

As is true for all schools participating in SFA Programs, Direct Loan schools must comply with verification requirements, explained in *The Verification Guide*. These requirements apply to Direct Subsidized Loan applicants but not to Direct Unsubsidized Loan or Direct PLUS Loan applicants.

Overawards

If a school becomes aware before Direct Loan funds are disbursed that a student has obtained additional financial assistance resulting in an overaward (that is, an award in excess of the amount for which the student is eligible), the school must take steps to eliminate the overaward. For example, the school may reduce the second or subsequent disbursement of the loan, or return excess loan proceeds to the Department. See Chapter 2 for a detailed discussion of overawards and a school's options.

Refunds

All schools must establish a fair and equitable refund policy for returning unused tuition, fees, and room and board charges connected with a

student who receives SFA funds but who has stopped attending school after attending at least one class. Schools must send all refunds directly to the Loan Origination Center—funds must not be given to students or parents. See Chapter 3 for a discussion of refunds.

Reconciliation

Schools participating in the Direct Loan Program create and transmit loan origination records and promissory notes, request and disburse funds, and report the maintenance and expenditure of those funds. A school's records of these activities are matched monthly to the records the Loan Origination Center maintains. Procedures for this monthly data match, called reconciliation, are covered in the *Direct Loan School Guide* and in the *Reconciliation Guide for Direct Loans.*

Student Status Confirmation Report Requirements

Schools are required to comply with Student Status Confirmation Report (SSCR) requirements. Schools complete and return these reports to the Department at least semiannually. The reports inform the Department of the address and enrollment status of students who borrowed Direct Subsidized and Direct Unsubsidized Loans and of students for whom parents borrowed Direct PLUS Loans. Schools must complete and return an SSCR to the Department within 30 days of receiving it.

Schools must report to the Department if the student

- ◊ has ceased to be enrolled on at least a half-time basis,
- ◊ was accepted for enrollment at the school but did not enroll on at least a half-time basis for the period for which the loan was intended or,
- ◊ has changed his or her permanent address.

If a school does not expect to submit an SSCR within 60 days of becoming aware that any of the above information has changed for any student, the school must inform the Department within 30 days of becoming aware of the change.

For complete information, see the *NSLDS Student Status Confirmation Report (SSCR) User's Guide.*

Schools that have successfully submitted SSCRs to NSLDS are exempt from the requirement to provide SSCRs directly to guaranty agencies. However, these schools must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicing companies. Although the Department hopes to eventually eliminate the need for these requests, schools must continue to provide loan holders

and loan servicers with a borrower's enrollment status or enrollment history for deferment and other repayment purposes, or other information needed to locate a borrower, such as last known address, change in surname, and employer's name and address.

Recordkeeping and Audits

Chapter 3 contains complete information on recordkeeping and audit requirements. Highlights of those requirements are discussed here.

Schools must maintain records to document compliance with the statute and regulations. These records include but are not limited to

- ◊ the amount of the loan and the loan period for which the loan was intended,
- ◊ financial assistance that was available to the student and used in determining estimated financial assistance for the loan period,
- ◊ the data used to construct a student's budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance,
- ◊ for Direct Subsidized Loans, the data used to determine the student's EFC,
- ◊ documentation of the student's eligibility to receive a Direct Loan,
- ◊ the amount and date of tuition and fees paid for the loan period,
- ◊ the amount of a refund paid to, or on behalf of, a student and the date and basis of the refund calculation,
- ◊ the date and amount of each loan disbursement,
- ◊ the student's job placement, if known,
- ◊ borrower information collected at the exit interview, and
- ◊ documentation that the student received both entrance and exit counseling.

Loan program records pertaining to borrower eligibility must be kept for three years after the end of the award year in which the student borrower last attended the school.

Other program records that are not borrower specific and that pertain to the school's participation in Direct Loans—including records such as the Program Participation Agreement and drawdown records that are not borrower specific—must be kept for three years after the end of the award year in which the school submits the records to the Department.

Each school may establish a fiscal and administrative recordkeeping system maintained in a variety of formats, for example, hard copy, microform, computer file, optical disk, or CD-ROM. In the event of a school's closure, termination, suspension, or change of ownership, the school or its successor must provide for the retention of records and for ready access to them by designated federal officials for auditing and examination purposes.

A school must cooperate in the conduct of audits, investigations, program reviews, or other reviews authorized by law. Cooperation includes providing timely access to records for Department and other authorized officials. Each year, an independent certified public accountant must audit the school; the audit must cover the period since the previous audit.

Any records involved in a federal audit procedure must be retained until the later of (1) the date the audit is completed or (2) the end of the record retention period.

In addition to Chapter 3, the Department's *Student Financial Assistance Programs Audit Guide* provides information.